May, 1957

THE

Credit Union

OFFICIAL PUBLICATION OF THE CREDIT UN

ON THE COVER

The members of this Indonesian family are citizens of one of the world's newest and biggest republics. More Indonesians come to the United States to study credit unions than citizens of all other countries of the world together. See section on World Extension, The CUNA Program, page 6.

The Credit Union Bridge

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VOL. 22 NO. 3

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COMING SOON

Payscales for credit union employees
The public relations problems of the credit union movement

Rackets in Auto Financing

startled a Senate subcommittee in March

WANTED: a better way to finance the sale of automobiles.

That's a common feeling among government officials and others who have battled unsuccessfully to eliminate abuses which are constantly cropping up as more and more consumers are induced to buy newer, bigger and costlier cars.

March 21 a U.S. Senate subcommittee heard extensive testimony on some of the evils that have crept into auto financing. The chairman was Senator Mike Monroney (D., Okla.), and among the witnesses were representatives of the National Better Business Bureau, the Massachusetts Insurance Department, and several insurance companies. The picture of abuses that emerged from this hearing was grim.

Automobile financing is big business, but all too often it is carried on by profiteers. Buyers are often unable to appreciate the full price they pay for credit, and in most cases the computation of financing charges is so complex that the buyer is unequipped to shop around and judge when he has found the best deal.

One reason these abuses occur is that much of the automobile financing is placed by the car dealer. In all too many instances, the dealer has already haggled so sharply over price that he tries to make a long profit on the financing in order to come out "whole" on the deal.

Frequently, too, the buyer unwittingly invites trouble. He wants a car and he is prepared to pay so much per month. He prefers not to trouble himself with the details.

After World War II, when dealers had things all their own way, the abuses were so obvious that the Federal Trade Commission threatened to intervene. A trade practice code was adopted which requires dealers to provide a bill of sale with an itemized list of installment costs, so that the buyer will have an indication of the amount that goes for insurance separate from the sum that is earmarked as the "financing costs".

No drop in complaints

While the financing organizations quickly complied with the modest requirements of the FTC rules, Federal and local officials find there is no real letup in the volume of complaints about financing practices. It is true these complaints involve "fringe operators", but they show that profit-

eers are persistent and ingenious in extracting full measure for the use of their money.

The problem is particularly significant because automobile financing is the oldest and largest segment in the entire consumer credit field.

Half a century ago, decent citizens were appalled at the idea of "going into debt" in order to buy something they wanted. But in the 1920's people wanted automobiles so badly that they were willing to take advantage of the newly developing installment sales plans. Their success in using credit to buy automobiles subsequently encouraged them to finance the purchases of costly electric appliances which have become characteristic of the American standard of living in the middle of the century.

Half of debts for cars

Automobile financing not only set the example, and made installment buying respectable, but it also accounted for the largest segment of all consumer financing. Of roughly $30 billion of outstanding consumer debt, about half represents unpaid balance on automobiles. Of 20 million cars sold in a 30-month period beginning January 1, 1954, at least two-thirds were sold on credit, with the percentage of credit sales increasing from 62 percent in 1954 to 65 percent in 1955 and 69 percent in first-half 1956.

In a mass consumption system like ours, economists say, any practices which might cause large numbers of buyers to lose confidence in installment finance could have serious results. For there can be no doubt that much of the current rate of activity in the consumer durable goods industries stems from the willingness of consumers to use credit to get the things they want now—and to pay for them as they use them.

While the abuses are caused by "fringe operators", testimony taken by the Senate commerce subcommittee on automobile marketing indicates the amount of sharp dealing is far from insignificant.

Commercial banks, which handle about two-fifths of the installment loans, are generally above reproach, the committee found. Offenders are chiefly among the automobile finance companies, which—as a group—have better than half the installment business.

One of the most common ways of "loading" the cost of installment contracts is through insurance. Under the FTC trade-practice code, buyers are supposed to be free to buy insurance from any reliable company. But the records show some of the finance companies are able to require far more insurance than owners would normally buy. By persuasion or otherwise, insurance subsidiaries of the finance companies are "writing" over 70 percent of the insurance issued on cars sold under installment contracts.

There are innumerable ways of running up the cost of the insurance "load" added onto installment contracts, and finance companies seem to be remarkably adept at discovering new ones all the time.

Once it was common to require only collision and comprehensive insurance. More recently, there has been an increasing tendency to include credit life insurance (at rates ranging from 0.3 to 1 percent) paying off the unpaid balance on the death of the borrower. In addition, lenders frequently have a "package" which may include, besides credit life insurance, one or more of the following: personal accident insurance, health insurance, hospital and ambulance insurance, towing and road service insurance and bail bond coverage.

The Group II racket

Much of the testimony at the subcommittee hearing dealt with overcharges which insurance companies collected by "misclassifying" car buyers, and requiring them to pay the penalty rates assessed against owners whose cars may be operated by an individual under 25 years old.

According to testimony given to the subcommittee, this practice went undetected until two years ago, when the Texas Insurance Commission noticed that roughly 80 percent of the policies placed by the insurance affiliate of one of the major nationwide finance companies were classified Group II—for cars operated by drivers under 25 years old—although the national average for this kind of insurance has been running about 20 percent.

When it was called before the Texas authorities, the company claimed it put these borrowers into Class II because car dealers failed to obtain information which would indicate they were entitled to more favorable Class I rates. Millions of dollars were refunded to Texans; but a year later, New York authorities discovered this same company was still following the same questionable procedure in handling sales in that state.

Altogether, the Senate subcommittee identified at least six big companies guilty of automatically classifying large percentages of their policyholders in Class II. In their statements of explanation, the companies reported they have subsequently taken steps to determine whether some of these policyholders may be entitled to Class I rates.

Millions at stake

Since there is a differential of at least 30 percent in the rate where the policyholder qualifies for Class I, the "error" increased the income of these insurance companies by millions of dollars. Texas officials figured $25 million since 1950 would be a conservative figure. Cad P. Thurman, insurance commissioner of Kentucky, reported rebates totaling $2 million were required in his state alone, and New York's insurance commissioner, Leffert Holtz, estimated overcharges in New York State ranged between $5 million and $8 million.

For a Ford Mainliner, for example, there would be a $71 overcharge for a two-year policy in New York if the buyer were put in Class II instead of Class I. On a 1957 Buick the overcharge would be $94.

Over-costly insurance may be the most common and subtle form of abuse in the auto financing field, but there are plenty of others.

In the hotly competitive automobile market of today, there are dealers who deliberately set out to make additional profit from the financing.

Sometimes the dealer's share of the finance charges on a new car is a flat sum, but more often it is a matter of negotiation with the lending institution. It may range from a fifth to a third of the total finance charge on a new car, or even higher on full recourse paper for used car sales.

Frequently an unscrupulous dealer is able to increase his return by charging more than the amount suggested by the financing institution. For example, a finance company may

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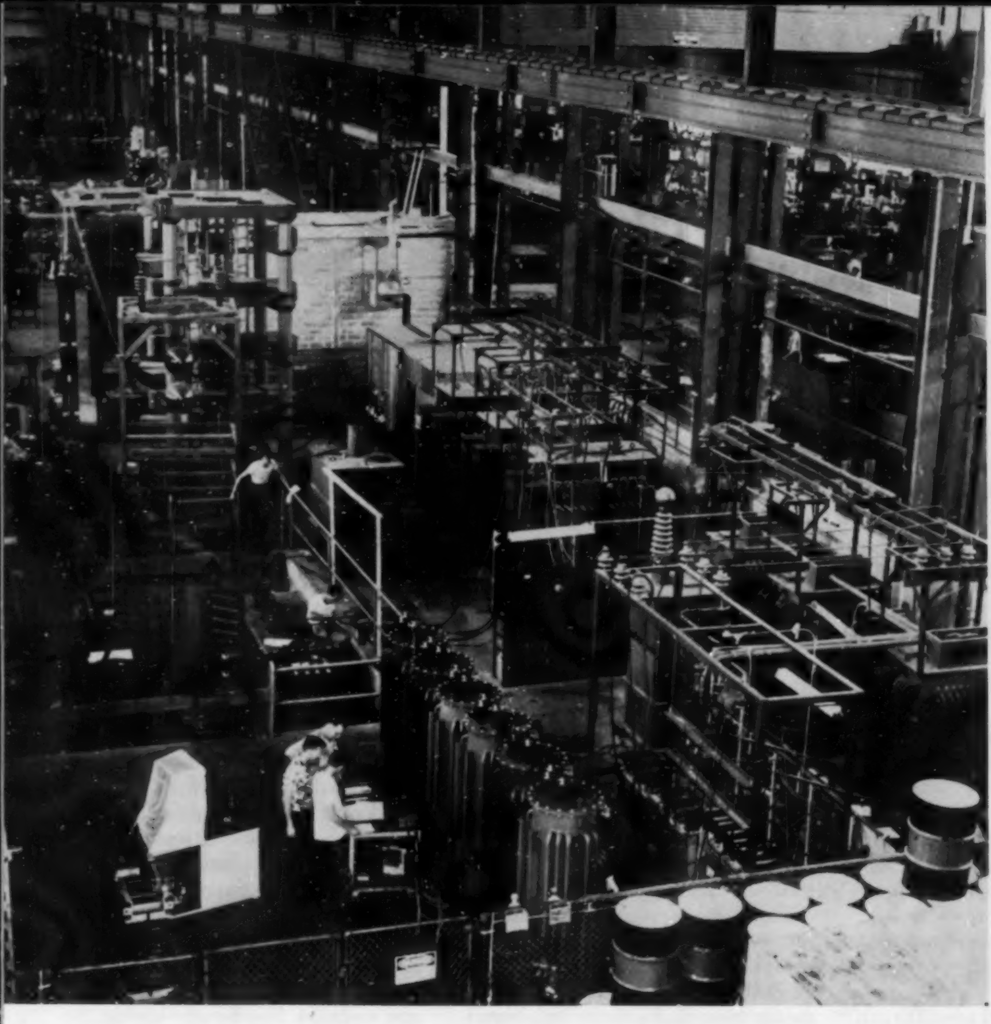


the SHERIFF doesn't live here any more!

He used to come to this Arkansas plant every Friday with a wheelbarrow full of wage attachments, but the credit union has broken him of the habit

"THE significant thing to us about our credit union is that the sheriff isn't sitting outside our pay office any more at two o'clock each Friday afternoon."

The speaker was G. A. Smith, plant manager for Central Transformer Company's new production center in Pine Bluff, Arkansas.

Smith continued, "Used to every Friday the sheriff was here to attach the wages of a lot of our men. Arkansas law allows a wage attachment to 85 percent of the man's wages, and we had some men who were attached to the limit. How they managed to keep going, I don't know."

Smith, a Pennsylvania native and electrical manufacture veteran, had been a credit union member back home, and he figured that a good credit union could help lick the wage assignment problem for his employees.

"Understand," Smith said, "I didn't actually get out and work for the credit union—I just suggested it. I attended a meeting of the local International Brotherhood of Electrical Workers union, that about 60 percent of our men belong to. They were discussing their wage assignment problems, and after the meeting I suggested that they start a credit union."

As for the sheriff who formerly served between 2 and 20 garnishment papers on Central Transformer Company employees every Friday, now they don't see him but maybe once a month, and then it might be just a

social call. By actual count, the credit union officers figure they have cut the garnishment problem to 10 percent of its former size.

Management stresses that it didn't sponsor the credit union. In Smith's opinion, "It was the employees' problem, and they had to work it out." But Smith, company president Frank A. Newcombe and other officers are credit union members.

Central Transformer Federal Credit Union got started in November, 1955. Men like James Wilson, George Wilson and Paul Abrams had attended the labor union meeting where plant manager Smith made his suggestion, and there had already been some talk but no action about starting a credit union. Apparently Smith's suggestion provided the spark.

The credit union's first financial statement, December 31, 1955, was little more than the healthy cry of a newborn child. It showed total expenses of $10 for surety bond premium and $1.22 income from interest on loans, giving a net operating loss of $8.78. In just over one month assets reached $2,051.02, with $1,043 loaned out and share accounts totaling $2,008.97.

Hard work, fast growth

The first plateau—money ahead—was reached and passed during 1956. At year's end, the credit union had 173 accounts out of a potential of 290, had assets of $17,114.01 including $15,268.19 in loans and had $16,483.26 in share accounts. With almost $1,000 income from interest it showed net gain of nearly $600 and paid a 2 percent dividend totaling $134.17.

The leaders paid a high price for that first year's progress. James Wilson, the first president, and Paul Abrams, the treasurer, estimate that they each spent between 500 and 600 hours on credit union business during 1956. This was their own time, since the company had a strict understanding from the first that credit union business was not to be transacted on company time.

Lunch is light

Even now, treasurer Abrams and president Charlie Hilton wolf down their lunch so they can have as much of their thirty minutes as possible for credit union work. Abrams says, "Sometimes I don't get to eat much." And Abrams also makes a Monday night call every week to take payments from night shift workers.

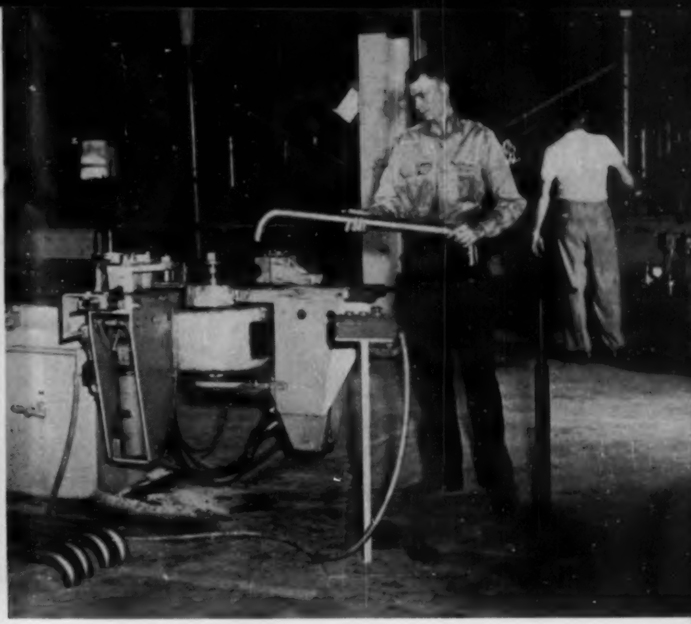
When the credit union started, Central Transformer Company was allowing a payroll deduction for the bond-a-month plan. So many employees shifted their savings from bonds to credit union that the company said, "We won't authorize payroll deduction for both bonds and credit union." The employees, left to decide which deduction they wanted, chose the credit union. The changeover took place in July, 1956. Now each week the company payroll department hands over about $800 to the credit union. There's a minimum of one dollar per week deduction, and several employees are right on that figure while others hold out as much as $15 per week.

Payroll deduction is used only for share payments. Smith said, "We didn't mind our payroll department helping credit union members save money, but we didn't want to be put in the position of collecting their loan payments." So most loan payments are made on Mondays following the Friday payday.

President Hilton and treasurer Abrams handle all loan applications. Right now their only working area is a small corner desk in a crowded, pipe-filled storage area upstairs over Smith's office on the transformer plant floor. The company has agreed to furnish the credit union office space on the main floor as soon as some plant expansion plans are carried out.

Because many of their members had a wage assignment problem, the credit union directors voted a $50 loan limit on signatures, $100 with one co-signer and $400 limit regardless of security. They did relax the rules to allow one $650 loan, but most loans run about $150 and are for consolidation of debts. Starting off equally cautiously on savings, the directors set a $1,000 limit on share accounts. The largest to date is about $600.

The three-man credit committee meets every Wednesday night, and either Abrams or Hilton is available to meet with them. In a plant no



larger than Central Transformer's, the credit committee is in direct contact with members' needs.

The 13-man education committee blankets the plant, with two members from each plant department. The education group has no specified meeting time, but the baker's dozen of educators take every opportunity to "talk up" the credit union. They also try to read all credit union materials so they can answer any questions. In spite of the 36-month loan repayment maximum allowed by federal charter, the education committee stresses 24-month repayments to cut members' loan costs and also keep the credit union's limited funds in circulation.

Keeping costs down

Another agreement made at the start was to hold salaries and other operating costs down. The treasurer gets $50 a month, which might figure 10 cents per hour for time spent on credit union business. For the foreseeable future, the credit union plans to get by on mostly volunteer help and use any excess to build up the annual dividend and also handle the abundance of loan applications.

Cash on hand fell behind loan applications just before Christmas, 1956, but share account payments caught up again in January. Only three or four of the credit union's present accounts are inactive, and out of 15 current delinquent loans only 2 are rated uncollectable.

Hardly any of Central Transformer's employees had ever borrowed money from a bank. Instead they had fallen into the wage assignment vise. For the most part they were unskilled workers who didn't know a transformer from a thermostat. They came off farms or out of unskilled trades to join the firm which now turns out between 1 and 1¼ percent of the nation's electrical transformers.

Those who borrowed money in downtown Pine Bluff paid at least 12 percent, usually more. Right inside the plant there were a few workers with spare cash who made small killings by loaning to fellow workers at usurious rates. The credit union blocked this lucrative traffic.

Supervising the growing credit union business is a seven-man board which meets every first Monday night and has a dinner meeting every third month. The directors drain their own pocketbooks for the quarterly dinner expense.

Once the Central Transformer employees decided to follow up Smith's suggestion and start a credit union, they needed and got plenty of help from officers of other credit unions in Pine Bluff. Particularly helpful were C. A. Webkes and G. W. Wester Jr. from the Cotton Belt Railroad credit union and Red Ashcraft from the municipal employees. These older hands helped the Central Transformer officers set up their books, and suggested loan collection ideas.

Arkansas has perennially been at or near the bottom of any economic list. The minimum wage scale, which affects some Central Transformer Company employees, was raised from 75 cents to one dollar per hour only last year. But the state is wooing an industrial revolution, with a statewide industrial commission created to spread the word of Arkansas' abundant water and power supply and labor.

In fact this missionary effort toward industry was responsible for bringing Central Transformer's predecessor company to Arkansas.

Sees better morale

Plant superintendent Smith believes that Central Transformer is earning a reputation as a good employer. "Just think," he points out, "the company is only seven years old, yet the average of our 363 employees has three years seniority. That must prove that they like to work here."

Regarding the credit union and other fringe employee benefits, Smith says, "Our employees are only as good as their attitude toward management. We think that the credit union has improved that attitude."

Far left: Treasurer Paul Abrams comes back at night to take care of urgent business. Next: Plant manager G. A. Smith (left) once belonged to a credit union in Pennsylvania . . . The Central Transformer plant is a link in Arkansas' growing industrial progress.

The Credit Union National Association occupies a building named as a memorial to Edward A. Filene, and facing Lake Mendota in Madison, Wisconsin

the CUNA program

has developed out of close consultation with the leagues. The goal is to provide improved technical service in the spirit of credit union philosophy.

LAST fall, representatives of credit union leagues met in Madison, Wisconsin, to re-plan the program of the Credit Union National Association.

How to organize more credit unions, how to improve their service to members, how to step up the national legislative program, how to get the credit union story to the public—these were some of the questions the league representatives took up.

Each question discussed had a Siamese-twin question attached—how should the responsibility be shared between CUNA and the leagues?

This is the question whose growing importance finally forced a reappraisal of the whole international credit union program.

Its urgency explains why a majority of the leagues in the United States and Canada were willing to send their managing directors and staff specialists at league expense to spend a week or so in Madison discussing education (September 3-7), organization (September 17-21), the relationship between CUNA and the leagues (September 24-28), public relations (October 1-5), publications (October 8-12) and legislation (October 22-26).

Now the new program is developing fast, based in large part on the conferences of last fall. Three new departments have been established and staffed: education, legal and legislative, and special projects. A new insurance service department has been put together through the merger of the bonding and auto insurance programs. Other departments have added new personnel: public relations, organization, The Credit Union Bridge.

The new program has to be described against the background of twenty years of growth and change. The big changes that have taken place since 1934, when the Credit Union National Association was organized, have pretty much dictated the problems and targets of the credit union movement today:

• The growth of consumer credit. Filene, original sponsor of the U.S. credit union movement, said repeatedly in the 1920's that mass production and mass distribution had to be built on mass credit. Today, at long last, this principle has been accepted by government, economists and the banking fraternity. Consumer credit is now one of the most conspicuous of the nation's problems. It has increased tremendously in volume, and it is permanently a political issue, as farm credit was in 1910.

• The growth of rackets. More and more, chiselers are finding how easy it is to make a fast buck by sharp practices in the field of personal loans or installment selling. Loading and packing have become fine arts for a sizable fringe of the business community. Meanwhile, for commercial lenders the costs of doing business have risen, and loans under $50 are hard to make at a profit. Hence loan sharks seem to be coming back, and credit unions are the working man's last line of defense against them.

• The growth of the credit union movement. Without commercial

smartness and finesse, without high pressure methods, with few paid employees and few professional leaders, the credit union has grown chiefly on the basis of public-spirited service. Each year its membership has increased; each year its share of the nation's loan volume and savings volume has inched ahead. By comparison with the giant banking and sales finance industries, the credit union movement is small; but it is big enough so that it is now constantly watched, studied and attacked.

• The growth of the leagues. In 1934, the credit union leagues were mainly paper organizations, with part-time officers. It was a vigorous and unusual league that had a full-time managing director. Today many leagues have larger field staffs than CUNA. They are closer to their credit unions, they can give help quicker, and they have little or no need for the kind of service that CUNA gave them in the mid-thirties.

• The growth of individual credit unions. A million-dollar credit union was a rarity in 1940, but there are hundreds of them today. These big credit unions have new problems in the areas of management, employee training, membership counselling and investment. Some have been forced by circumstances to recruit employees from banks and commercial lending agencies. Thus far, these big credit unions have maintained their credit union spirit on a high level. But they need a kind of service that most leagues and CUNA have not until now been equipped to give.

The new CUNA program starts by recognizing the fact that some basic services must now be decentralized. The leagues in many states and provinces can do a better job than CUNA in organization, in field service and in education. While some areas still require the old broad CUNA service, and will get it, others need more specialized types of technical assistance. Hence the new CUNA program, developed out of close consultations with the leagues, leads out toward pioneering services.

Organization

The organization department under director Robert Dolan and assistant director Robert Lechner, aims at providing leagues with leads, contacts, tools and ideas for building their organizing programs.

This represents a new approach, following the organizing lull that has reigned since the termination of the big national advertising campaign of the 1951-55 period.

Whether the advertising campaign in national magazines and radio was worth the money spent on it is a subject of some disagreement among the leagues. There is no question that the rate of organizing new credit unions went up during the period. It went up and stayed up—there were more than 2,000 new credit unions organized in 1953, for the first time, and the rate stayed high for three years.

Some league field men complained

at the time that the leads they were getting from the advertising campaign were mostly worthless, coming from people who did not belong to any suitable common-bond group. If they are right, you have to explain the high organizing rate of the period in some other way—by saying, perhaps, that the advertising stimulated interest both among volunteer organizers and in the public.

In any case, there is no demand among the leagues at the present time for renewal of such a program. The new program will be based on more delicate methods.

The tools that the organization department is now producing include a flip chart that can be used by an organizer in telling the credit union story to an employer; a poster to be hung in credit union offices inviting members to pass along the names of friends who belong to eligible unorganized groups; and a flannel board for use by organizers in talking at charter and organization meetings. Chalk talk equipment is also being considered.

In April the department broke a new trail in exploring relationships with other friendly organizations. A "fact-finding conference" was set up to bring together credit union people and representatives from national organizations representing labor, personnel management, rural and urban communities, churches, educators, small business and cooperatives. The purpose of the meeting was to find out to what extent such organizations could be interested in handling some of the organizing load; and the data collected will be passed along to the leagues. Similar meetings are definitely possible at the state and provincial level.

An organization news letter now goes out monthly to league offices and field men. This announces names of new credit unions organized each month in the United States and Canada, and news of good prospect groups. Air Force bases and wholesale produce houses are among groups now being recommended for organization.

On the recommendation of the organization conference last fall, October is being designated Organization Month, and one week in October will be set aside as Prospect Week. The rules of the Volunteer Organizers Program are being revised somewhat; new rules and pamphlets will be available shortly. Organizers' kits will also be improved, and among new materials prepared for inclusion in them will be a pamphlet aimed at labor unions.

Education

The education department was set up by a vote of the national directors of CUNA at the annual meeting last year. It is now directed by John Bigger, with C. A. Woolard as assistant director. The department inherits some educational activities formerly carried on under the organization department—particularly the summer school for credit union personnel.

The basic problem of the education department is that it has something like 330,000 credit union officers to reach.

Further, the turnover in officers may run anywhere from 20 to 50 percent, which means there are from 60,000 to 165,000 new officers and committeemen to train each year. A few leagues have made inroads into this tremendous educational job with workshop, clinic and summer school programs, but in the main it has hardly been begun. Most new officers and committeemen depend entirely on what information they can pick up from their fellow officials.

Among the projects on which the department is now working:

- The 1957 session of the school for credit union personnel. Based on evaluations made by last year's students, the plans for this year call for heavier use of professional educators. Presentation by lecture will be sharply reduced, and student participation will be emphasized.
- A second film strip will follow the recently issued strip on the duties of the board of directors. The first strip has sold well, but many field men need instruction in how to make better use of it. Woolard will be available at the CUNA annual meeting in Omaha this May to give instruction to any who want it.
- A correspondence course for credit union treasurers is now under study. Proposals will be submitted to the CUNA educational committee in May.
- The CUNA Educational News is issued monthly for the benefit of professional credit union educational specialists. This will offer how-to ma-

Clockwise: League public relations specialists discuss a legislative problem . . .

Films have become an increasingly useful part of the educational and public relations program . . .

Two shots: League representatives from Saskatchewan, Pennsylvania, Illinois, Wisconsin and Michigan join CUNA staff members in a conference on deposit insurance and stabilization funds . . .

Bottom: Two Japanese trade unionists come to Filene House to learn something about credit unions.

terial and news of interest in the field.

Since the department was established, Bigger and Woolard have spent much of their time consulting with leagues and participating in conferences and workshops. Their services have already been requested in connection with educational planning in Illinois, Michigan, District of Columbia, Quebec, Nebraska, North Carolina, California, Minnesota, North Dakota, Texas, New Mexico, West Virginia, and New York.

Training trainers is the big job at present, as the educational department sees it. But eventually, the impact of the educational program should be felt by every one of the 11,000,000 credit union members, Bigger believes. With a program ranging from university courses to treasurer's manuals, from film strips to correspondence courses, from workshops to regional summer schools, CUNA is now beginning to catch up on a job that has been accumulating since 1934.

Public Relations

The public relations program was set up only a few years ago, and it is substantially up to date in aims and methods. Warren Lutey is the new director, and Mary Jean McGrath is the assistant director. Thanks to this year's special pressures, both are working overtime.

Public relations conferences have been scheduled by regions this year for the convenience of league public relations specialists. The first two will

(*Continued on page* 25)

How big a debt load can people carry?

The Federal Reserve Board discusses this and many other vital questions in a five-volume study of consumer credit just released.

LAST month the Federal Reserve Board released an eagerly-awaited study of consumer credit, running into five volumes.

Advance reports said the study would make a case for new stand-by controls on consumer credit, along the lines of Regulation W. It doesn't. It covers the pros and cons scrupulously, and the reader comes out with a strong impression that the case for a new Regulation W is hard to sustain.

Take, in particular, the chapter called The Burden of Consumer Installment Debt.

"Despite the recent rapid increases in installment debt, the burden of installment debt payment has not increased in recent years," says Federal Reserve expert Stanley J. Sigel.

More families borrowing

Most of the increase in borrowing between 1952 and 1956, Sigel finds, resulted from new borrowers coming into the field.

Especially, there was an increase in families with debts in the income brackets above 5,000. Below that income level, there was no increase. The table shows how the percentage of families with debts increased between 1952 and 1956. The total increase was from 38 to 45 percent of all families, but the gain was all in the income levels at the upper end.

Below $5,000 there was even a slight decrease in the percentage of families with debts.

For the individual, the report points out, it is a hard thing to figure how big a debt load can be carried.

Families (Spending Units) With Debts, As a Percentage of All Families

	1952	1956
All income classes	38	45
Under $1,000	2	2
$1,000-$1,999	4	4
$2,000-$2,999	7	6
$3,000-$3,999	9	7
$4,000-$4,999	7	8
$5,000-$7,499	7	12
$7,500-$9,999	2	4
$10,000 and over	—	2

Most individuals commit themselves to three different kinds of regular payments: mortgage or rent, life insurance, installment debts. The pattern of these commitments has changed a good deal since 1939, but as a percentage of disposable income they have changed very little. Individuals were signed up to pay about 20 percent of their income after taxes on these three categories in 1939, and they are signed up to pay about 21 percent today. The percentage that goes for payments on installment debts has risen a bit, as you might expect, but the percentage committed for rent and life insurance has dropped.

Installment credit is a valuable element of our economy, the report indicates. Not only does it make possible the mass marketing of high priced durables, but it also, like other forms of credit, creates outlets for savings, and probably stimulates rather than discourages saving.

The dangers of installment credit, as far as the individual is concerned, are mainly connected with a possible shrinkage of income. Few cases seem to be reported of people overextending themselves in terms of their current income. When their income is cut, however, they may find repayments difficult to keep up. This applies equally, however, to mortgage debt and insurance premiums.

Most installment debt is scheduled for rapid liquidation, and the indications are that after a few months of lower income, the burden of repayments has been comfortably reduced for most borrowers. Borrowers have the alternative of giving up cars or other goods for which they have borrowed; they can refinance in some cases; they can turn in their cars and buy something cheaper, realizing cash in the transaction if their equity is big enough.

Case for regulation weak

All in all, the report gives little comfort to alarmists.

Statements in favor of setting up new standby controls are offered mostly by economists, and mostly in guarded, qualified and cautious terms.

Statements against controls are made in vigorous language by many representatives of industry and finance.

The reaction in Washington, after observers had had a few days to digest the five massive volumes, was that the Federal Reserve report weakens the Federal Reserve position—if, indeed, the Fed wants power to control consumer credit. Recent statements by Chairman Martin of the Board of Governors suggest the wish is dwindling.

Does payroll deduction impair the educational job of the credit union?

Some people insist that a credit union with payroll deduction loses contact with the members and ceases to be a real credit union. You can't prove it by this survey, though.

DOES payroll deduction encourage more members to join the credit union? Does it bring out more members to the annual meeting?

Possibly the answer is yes. A BRIDGE survey of 200 credit unions indicates that in both these respects, credit unions with payroll deduction out-perform credit unions without payroll deduction.

This is not going to throw any oil on the troubled payroll-deduction waters. Opponents of payroll deduction will go right on arguing that it places a barrier between the credit union and its members, breaks down the warm human contact that ought to exist between members and officers, turns the operation into a lazy man's dream. Advocates of payroll deduction will persist in pointing out that many members cannot save any other way, costs of delinquency control are reduced, dividends and interest refunds are improved.

They love it

Maybe the most the Bridge survey does is to raise this question: Is there any necessary connection between the educational job the credit union does and its use of payroll deduction? The connection may have been overstressed.

No question about it, credit unions that have payroll deduction like it. Out of the 200 credit unions queried by The Bridge, 154 replied. Of these 98 have payroll deduction, and 56 do not. All 98 that have it like it, and of the 56 who do not have it, 35 wish they did. Only one reports that payroll deduction has ever created problems between the credit union and management, and several report that it has led to improved relations.

Many naturally report, as expected, that the savings record has been improved by payroll deduction. Here are some of the comments:

"Members save without realizing that the deductions are savings. It is most surprising how small deductions, such as $2 or $3, mount up. Some of our unskilled labor have savings of two or three hundred dollars just by saving such small amounts."

Savings pile up

"Better than 30 percent of weekly deductions go to savings."

"Assets have increased substantially each year. Estimate our annual growth between 25 and 30 percent."

"Would say 75 percent would not save if we did not have it."

"More people will save if they do not actually get the money."

On the other hand, saving by payroll deduction isn't always permanent. One reports: "Many are saving who wouldn't otherwise; however, deductions almost equal withdrawals each month. Used as a checking account by some."

In most cases, the credit union does not pay management for the payroll deduction services. For those that do, the remuneration varies from a flat fee such as $10 a month to a variable item of 4 cents per deduction.

The reasons why 56 do not have payroll deduction range from the severely practical to the philosophical.

"Crack brain in the book-keeping department,' 'one replies, "who refuses to listen to talk that we won't overload her department with another job."

"Want to keep direct contact with customer," says another, "which we believe to be of real value in carrying out the ideals of credit union philosophy."

"We like to have the individual keep his personal freedoms," reports a third, "and we feel that payroll deduction cramps individual style. We don't feel that it would help the credit union nor the individual, and it also burdens the company."

Following this up, The Bridge asked each credit union the size of its membership, its potential membership, and the attendance at its last annual meeting.

Look at the record

Surprisingly, the credit unions with payroll deduction reported that they have signed up 72 percent of their potential members, while credit unions without payroll deduction have signed up only 48 percent.

As for annual meeting attendance, the difference again favored the credit unions with payroll deduction, but it was too slight to be significant: 9.7 percent as compared with 8 percent.

This survey is not guaranteed scientific. The sample may be too small, it may be skewed. But in any case, the answers suggest that the subject is worth calm study.

INSURING THE BORROWER

Fifty percent of all consumer installment debt is now covered by credit life insurance. Coverage is growing faster than loans. But as yet, few lenders follow the credit union example of absorbing the cost.

CREDIT life insurance—insurance which cancels the debt in case the borrower dies—today protects almost half of all consumer installment debt in the United States. This type of insurance is a new development in the credit industry, particularly in the sales finance, banking and small loan fields. Credit unions have used this loan protection coverage for the last twenty years. But commercial lenders did not begin large-scale insurance of borrower loans until the early 1950's.

Since then credit life insurance has expanded rapidly. At times its annual growth far exceeded the rise of consumer credit. This was the case in 1955, when consumer credit rose 22 percent but credit life insurance increased 44 percent. According to Institute of Life Insurance estimates, present coverage in force is approximately $17 billion. Most experts predict further expansion because, as one puts it, "Insurance in our country is something like virtue. Almost no one is against it."

Five types of consumer installment credit are covered by credit life insurance. They are automobile, appliance, personal, repair and modernization loans. Automobile loans ac-

count for $14.5 billion of the $31.5 billion consumer installment credit outstanding at the end of 1956 in the United States. They also have more credit life insurance coverage than any other type of loan. During 1956 General Motors Acceptance Corporation, largest holder of automobile paper in the United States, received 65 death claims each business day. To meet these claims, GMAC's insurance carrier, The Prudential Insurance Company of America, paid out $13,804,000, cancelling the loan balances of 16,542 borrowers.

Claims reach $75 million

Total claims for 1956 reached an estimated $75 million, the Institute of Life Insurance reports. This amounts to a 50 percent increase over the previous year and represents an all-time high in credit life benefits. These sums relieved tens of thousands of surviving widows and co-signers from the burden of repaying the debts of deceased borrowers. In the case of the automobile installment paper held by General Motors Acceptance Corporation, the average unpaid balance cancelled at the borrower's death during 1956 was $834. But GMAC claims reflect the relatively large size of automobile loans. Home appliance and personal loans are usually for much smaller amounts. Because of the large number of appliance and personal loans, overall claim averages for all types of life-insured consumer installment loans are 30 percent smaller.

The two principal categories of credit life insurance are group and individual. Individual coverage insures the life of one borrower only. This type of borrower's insurance dates back to 1917. Group insurance followed in 1927. It protects all borrowers of a particular lender whose loans fall within the same classification. Since 1931, four years after its inception, group credit life has exceeded individual credit life insurance both in growth and in coverage. Today group coverage accounts for more than 80 percent of all credit life insurance in force.

Approximately two-thirds of the $15 billion of group credit life insurance now in force in the United States is written by four insurance companies. Each carries more than $1 billion of group credit life coverage. Largest of the four is the Prudential Insurance Company of America, which, in addition to carrying the automobile paper of General Motors Acceptance Corporation, also insures the paper of Commercial Credit Corporation, has a sizeable number of commercial banks among its customers, and protects the small loans of Household Finance Corporation in sixteen states. Total group credit life coverage of the Prudential at the beginning of 1957 was $5.6 billion. This is 37 percent of the national coverage in force. The three next largest companies together carry close to 30 percent. CUNA Mutual is one of these, but its position is hard to guess due to industry secrecy. The remaining third of group credit life insurance is held by some two hundred companies.

Here to stay?

What does the recent growth of credit life insurance mean to our economy? To the insurance company it is a fertile soil capable of yielding a

substantial crop of additional premium income under broader coverage. To the economist it is a confirmation of what he has suspected for some time; as one authority puts it, "Consumer installment buying is now an accepted part of our way of life. It seems that carrying life insurance on the borrower's outstanding balance is rapidly gaining equal acceptance."

"In our part of the country we would not be able to compete with other credit institutions without offering credit life insurance," says the head of the consumer credit department of a large Eastern bank. "Nearly everyone here offers this form of coverage."

But, as in any other field having a mushroom growth, there are periods of experimentation and debate. Both the consumer credit and the insurance industries are going through such a period now. Here are some of the questions currently under discussion: Who should pay the cost of credit life insurance? Should the lender profit by its sale? What should be the premium rates? The last two questions have been the subject of a vigorous controversy since 1952. At that time credit insurance abuses had grown to such general proportions that the National Association of Insurance Commissioners was compelled to recognize the problem officially.

Most charge the borrower

Determining who should pay the cost of insurance coverage is the first decision facing each lender. Some view credit life insurance as an additional service to their borrowers. They feel that through this coverage they can attract more business. They recognize that life insurance reduces their risk. And they find that the lower risk, combined with the additional loan volume, justifies absorption of the premium cost. These lenders make no direct charge to the borrower. Outside the credit union movement, they are few.

Others feel that they cannot absorb the full premium cost. To share this expense with the borrower, they adjust their interest rates upward. This enables them to pass on indirectly to the borrower all, or a portion, of their premium cost.

Both these methods of cost distribution fit with the recommendations of the Russell Sage Foundation. To protect the consumer from pyramiding "extras" charged in addition to legal maximum rates, the Foundation always recommended the all-inclusive "one-charge-plan" as an integral part of effective small-loan legislation.

But the majority of lenders pass premium charges on to the borrower. This leads to the present controversy between groups within the two industries. Because many lenders do not limit their charges to actual costs—instead they are making a substantial profit from credit life insurance sales. To do this, they avoid group coverage and sell their borrowers individual contracts.

Individual vs. group

According to Dr. Wallace P. Mors, chairman of the Finance Division and professor of finance at Babson Institute of Business Administration, "Individual decreasing term insurance costs the consumer installment borrower from two to three times as much as group insurance." Refinancing increases the cost even further. And a U.S. Senate sub-committee "found instances where lenders received as much as 85 percent of the premium paid by the borrower as commission for the sale of insurance."

Most group and individual credit life insurance is written on a decreasing term basis. This means that the amount of the coverage decreases as the outstanding principal of the loan goes down. Neither involves medical examination or other prerequisites. Both offer installment borrowers similar protection. Yet individual coverage costs yearly one dollar per $100 of original loan while group insurance premiums range from 29 cents to a maximum of 49 cents.

Lenders selling individual coverage seek to justify the continuation of large premium refunds or dividends by asserting that it costs them a substantial amount of time to sell this insurance to their customers. They say they should be compensated for the time spent in connection with the insurance sales.

There is fairly general agreement in the industry that lenders are entitled to compensation for "actual expenses." But there is a substantial difference of opinion in regard to the extent of the lender's cost of administering insurance sales. Two diametrically opposed theories prevail. One holds that actual administrative costs per $100 borrowed amount to nearly 40 cents during the initial one-year period. Another maintains that true overhead costs during the first year per $100 of indebtedness amount to 4.7 cents. Both sides offer a wealth of documented data in support of their contentions. Obviously, one of the two contending parties must be mistaken.

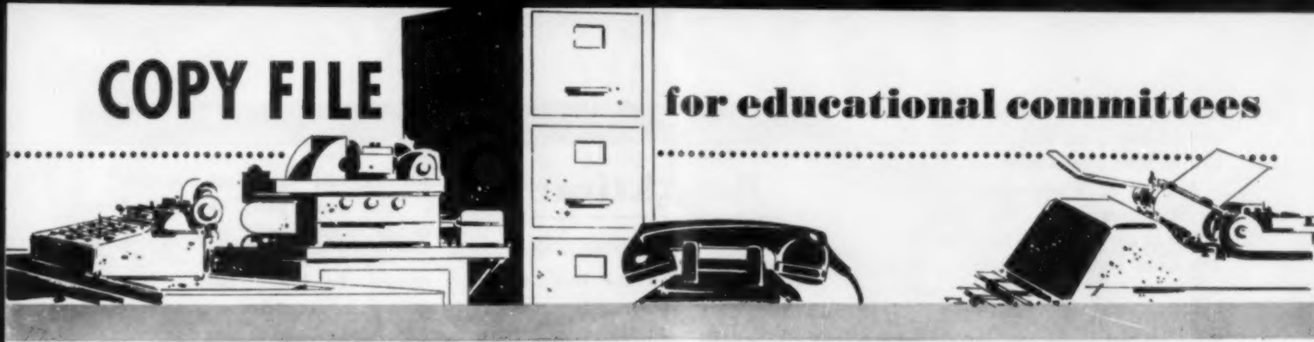
During the meeting of the National Association of Insurance Commissioners of December, 1956, Arthur J. Cade, executive vice-president of Old Republic Life Insurance Co., stated before the Committee on Insurance Covering All Installment Sales and Loans that abuses in the field of individual credit life insurance include overloading, pyramiding, failure to refund unearned premiums and failure to deliver policies. Mr. Cade, who represents the Consumer Credit Insurance Association, a trade association of insurance companies, acknowledged during this Miami Beach session of the NAIC that the one-dollar individual credit life rate is too high.

The war over commissions

At an earlier session during the same year, the American Life Convention, jointly with the Life Insurance Association of America, presented to the NAIC sub-committee on Credit Life and Credit Accident and Health Insurance a preliminary draft bill proposing a uniform credit life and credit accident and health insurance law. Section 6 of this draft bill under the heading "Compensation to the Lender" proposes: "A lender, or its affiliate associate or subsidiary, or a director, officer, or employee of any of them by or through whom credit life insurance is written, may not receive and retain, for writing such insurance in connection with loans of $500 or less, compensation in any form including commissions, dividends, premium adjustments, policy writing fee or underwriting gain, in excess of 40 cents per annum per $100 of initial indebtedness in the case of credit life insurance."

Dr. Daniel P. Kedzie, assistant professor of insurance at Marquette University's School of Business Administration and author of the recently published book *Consumer Credit Insurance*, also believes that a 40-cent

(*Continued on page* 20)



The material in this department is available in reprint form for distribution to members, under the heading The Credit Union Family Digest. Sold in bulk at two cents a copy; lower prices above 1,000.

Financing the college student

COLLEGE education costs are spiraling gradually upward, and if you don't plan early you may learn too late that you simply can't afford to send your children.

There are four primary ways to finance a college education. First you, the parent, can foot the entire bill. That may be not only financially disastrous but may have unwanted psychological effects.

Second, the student may work his way through school. Any parent who has gone through this rough mill probably wants to see his child avoid such an ordeal.

Third, you or your child can borrow the money. Naturally you'll want to include the credit union in any planning along this line.

And fourth, your child might win a scholarship. Usually these are outright gifts, and they're not reserved strictly for the brainiest youngsters. The well-rounded high school student with average grades often gets the nod over the straight "A" bookworm who hasn't discovered living.

Any or all of these four financing methods can work together. In fact, if you've got more than one youngster who ought to go to college, you'll probably need to tap all four fountains.

Educators have written volumes on whether the parent should foot the child's college education costs. This might be the only solution in some families and be exactly wrong in others, so individual circumstances should dictate. If you're determined to pay it all, you'll need to start planning early. Credit union share accounts are one form of long-term savings. One $5 share per week per child, if you start when he is born, will yield almost $5,000 by the time he's ready to enroll.

Life insurance companies label some plans for education. They're usually something like 20-year term policies which may carry a heavier premium rate than the young parent can bear.

Series "E" U.S. government bonds are used for education savings. A bond a month is a frequent layaway per child, and that, too, will render almost a full college education payment by enrolling time.

How much will college cost? That's a changing and climbing amount each year. Costs have doubled since 1940, so that the parent who thought in 1940 he was putting away enough savings probably will find this year or next that he went only about halfway.

Running down the costs

Generally publicized figures today are these for four years: $4500 at a state university, $6500 for a private (non-state sponsored) coeducational school, $7600 for an institute of technology, $8000 for a private men's school and $9000 for a private women's school. Those are complete figures, allowing for tuition, books, fees, room, board and travel.

If you're trying to finance college through savings, you can probably use these figures as a conservative guide and hope to step up your savings later to keep pace with what surely will be rising college costs. Most colleges require two lump sum payments during the school year—one in September, the other in January. Some parents estimate a full year's cost, then deposit that amount to the student's bank account and let the student manage his affairs from there.

Earn-while-you-learn plans can work to the benefit of all concerned. The college itself or merchants in town have numerous jobs that can be filled by part-time student labor. Rarely will a student earn enough to pay his entire way, but there are exceptions like the enterprising youth who eventually built a $50,000 annual gross out of getting students' birthday dates, then writing the parents and offering to bake and deliver a birthday cake on the proper day.

Most have jobs

The University of California at Los Angeles reports that 81 per cent of its students have jobs. Ohio State University has 83 per cent of its enrollment earning financial aid.

Harvard says it "believes in the educational value of employment during college." Yale requires a student to work before he can be awarded a scholarship.

A student's work certainly isn't confined to the educational year. In fact a good summer job can net more than the part-time school season job, and the two combined can really boost dad's financial spirits.

There are almost unlimited sources of educational loans. Credit unions are one of the best sources, and credit unions have been making educational loans for years. One Rocky Mountain community credit union loaned $2400 on 12 applications last year, and a Midwest employees' credit union loaned $7600 on 26 applications.

Some lending agencies believe that a college education loan offers its own security. One loan agent said, "A person almost never defaults on a loan to pay for his child's education."

Loans direct from colleges are an old and relatively untapped source of education finance. It is estimated that

two-thirds of all colleges have some sort of loan plan and loan only about half of their available money.

A dean at Washington University in St. Louis said, "We think it is sound to go into debt for education." The usual terms on a college loan are one to three percent interest, with no payments expected until after graduation. However, most colleges are reluctant to loan to freshmen because of their high flunk-out rate.

State and local governments are moving into the college loan business. The Massachusetts Higher Education Assistance Corp. went into operation in March, believed to be the first case of commercial bank resources being accessible to students. The Higher Education Loan Plan (HELP) issues a guaranty of 80 percent on loans made to Massachusetts students by Massachusetts banks in accordance with HELP terms. It is claimed that this will make loans available at lower rates and for longer terms.

Ontario group helps

The New York state legislature has approved a bill creating a non-profit corporation to make loans to college students. Individual gifts and grants from industry and foundations are expected to form the pool from which a maximum of $1000 will be loaned in any one year or $5000 to any one student.

Orangeville, Ontario, population 3600, has a group which lends money without interest and through which 60 students already have gone to college. The lending agency, called Orangeville District Students Aid Inc., was formed by a small group of education-minded citizens. This started as essentially a personal operation by four or five citizens, but is being expanded to accept general donations.

Some universities offer short-term loans without interest, and many university faculty committees in charge of loans are revising their standards to raise maximum loan limits and also extend repayment periods.

A college tuition plan was set up in 1938 as a subsidiary of Commercial Investment Trust. Now 90 colleges participate. A single contract will cover from one to four years, with interest rates set at 4 percent for one year, 5 percent for two years and 6 percent for three or four years.

Generally women students are reluctant to borrow money for college education because a prospective husband might be left with the debt.

Loans and scholarships have some characteristics in common, but scholarships are usually outright gifts. In 1936 there were 70,000 scholarships worth $8.8 million; today there are 141,500 scholarships valued at $31 million. The Council for Financial Aid to Education says that since 1951 almost 60 percent of the 300 largest U.S. corporations have started some form of college financial assistance.

Scholarship opportunities vary widely from college to college. At the University of Chicago, for instance, the beginning student has about a one-in-three chance to get a scholarship. At most state universities the figure is closer to one chance in ten.

A would-be scholarship winner needs good high school grades; not necessarily the highest in his class, but preferably in the top one-fourth. Then he must establish financial need for a scholarship. Finally he must prove that he's an all-round student, not a bookworm. Those aren't hard and fast rules, but they're handy recommendations when applying for scholarships.

For top-rated students

There's also a top bracket program for high school scholars. Under the National Merit Scholarship Corporation established in 1955, some 160,000 seniors from the upper 5 percent of their high school classes take a series of tests. After eliminations on a local and state level, national winners are declared, and they receive scholarships based on financial need. The Ford Foundation helped start this program with a $20 million grant, and other corporations and foundations have chipped in.

Scholarships go begging, educators say, because students don't go looking for them. Early in his high school career the aspiring scholar should start his search. The logical starting place is with his teachers and principal. Colleges generally issue bulletins which describe their scholarship programs. The student also should contact corporations which may have scholarships, church groups which usually favor members of their own faith, civic clubs and state and federal governments.

Some scholarships are awarded almost on a "fluke" basis, only to students of a certain last name or students of a certain home town or descendants of certain persons. But there still are as much as $4 million worth of scholarships unused each year.

For further information

There are publications available to help you survey the scholarship market. The Superintendent of Documents, Washington 25, D.C., has a 70-cent bulletin on scholarships and fellowships. Most public libraries will have Lovejoy's "College Guide" and S. Norman Feingolf's "Scholarships, Fellowships and Loans." In addition, for $1 you can order the "College Handbook" from P.O. Box 592, Princeton, N.J., or P.O. Box 27896, Los Angeles 27, Calif. This 399-page book describes 169 colleges and universities, their location, size, cost, available financial help and where to write for more information.

Breaktime

The boss called the new stenographer into his office. "Miss Gann," he said, "you are the best looking girl we ever had working in this office."

A pleased look came into the girl's eyes.

"You dress well," the boss continued, "you have a nice voice, you make a good impression on the public, and your deportment is fine."

"Oh, thank you," she said, "your compliments are very pleasing."

"Enjoy them to the fullest," returned the boss, "because we are now going to discuss your spelling, punctuation and typing."

"What's the matter with you?" the wife demanded. "Monday you liked beans, Tuesday you liked beans, Wednesday you liked beans; now, Thursday, all of a sudden you don't like beans."

Tour Europe With a Group of Credit Union People

Interested in seeing London . . . Paris . . . Rome . . . Copenhagen . . .?

—in a boat trip on Loch Lomond, seeing the changing of the guards at Buckingham Palace, visiting French painters at Barbizon, going to mass at St. Peter's in Rome, touring Kronborg Castle in Copenhagen where Hamlet's ghost still appears on suitable nights . . .?

—in discussing credit union problems with officials of the Raiffeisen and Schulze-Delitzsch groups in Bonn, in seeing how credit unions work among employees of international organizations in Rome and Paris . . .?

—in shopping for silverware in Copenhagen, leather goods in Florence, watches in Switzerland?

These features and many more are offered credit union members who participate in the 1957 CUNA European Tour plans for which are being completed by the CUNA World Extension Department. This year's tour which is the fourth will leave New York on July 11 and return on August 1 after visits to Scotland, England, France, Italy, Switzerland, Germany and Denmark. The cost of the tour is $943 a person. Tour participants who wish to attend the Congress of the International Cooperative Alliance in Stockholm, Sweden, may do so at additional cost. And as an added bonus feature, you can remain abroad longer than the scheduled three week period without additional charge for transportation back.

WHAT YOUR MONEY BUYS

The 1957 CUNA European Tour is especially arranged for credit union members. It has all the features of a conventional European tour, but also the added attraction of an opportunity to learn about credit unions and similar organizations in Europe. The itinerary is based on experience from previous CUNA European tours and offers the best available in sight-seeing, education and recreation. This is your chance to combine your yen for foreign travel with your interest in the credit union movement—and to do it within the limits of an economy-minded budget.

The cost of $943 entitles you to round trip flight via Scandinavian Airline System, accommodations in comfortable hotels, two meals a day, freedom from worry about tips and luggage and a variety of special sight-seeing trips with local guides supplied at every point. A credit union tour leader accompanies the group from departure at New York and throughout the tour.

SPECIAL FEATURE ADDED

In addition to sight-seeing in Scotland, England, France, Italy and Denmark a specially chartered deluxe motor coach takes the group from Rome to Dusseldorf, Germany via Florence, Pisa, Genoa, Milan, the Swiss Alps, the Rhine Valley, Heidelberg and Bonn.

Technical arrangements for the 1957 CUNA European Tour are handled by the American Travel Association which CUNA joined in 1956. The ATA will also arrange itineraries for tour participants who wish to spend time in Europe in addition to the scheduled CUNA Tour.

HOW TO APPLY

If the idea of the trip interests you—if you would like to know more about this exciting adventure in world understanding—just clip the coupon below and send it to the CUNA World Extension Department, Post Office Box 431, Madison 1, Wisconsin. You will receive full details on the day-to-day itinerary, passport requirements, how much luggage is allowed, etc.

If you plan to take the Tour you should submit your name as soon as possible. Even if your plans are only tentative, it is wise to make your application now—flight and other reservations are a lot easier to cancel than to obtain during the summer tourist rush to Europe.

CUNA World Extension Department
CREDIT UNION NATIONAL ASSOCIATION
P. O. Box 431, Madison 1, Wisconsin

Gentlemen:

Please send me full details on the CUNA Credit Union Tour to Europe.

Name..............................

Address..............................

City.............................. State......

Credit Union..............................

Auto Finance Rackets

(Continued from page 2)

expect dealers to charge 6 percent add-on, and may buy contracts at 4 percent, permitting the dealer to keep 2 percent as his "reserve". But the dealer may add a "service charge", or use a 7 percent add-on chart instead, keeping more cash for himself.

Practices of this type are not condoned, of course, either by ethical dealers or by ethical finance companies. The National Automobile Dealers Association long ago recognized the problem, and in its code of ethics it reminds dealers that it is their responsibility to furnish the lowest finance and insurance charges consistent with sound business. Moreover, many finance companies refuse to repurchase loans written at rates higher than those they recommend, but others ignore the practice, and there are even some which raise their rates to share in the higher finance charge.

John L. O'Brien, president of the Akron Better Business Bureau, told the Senate auto marketing subcommittee that surveys in 45 cities turned up at least six common types of schemes to ensnare auto buyers.

1. The most serious offense, he said, involved blank contracts, a practice reported from 28 cities. Here the customer signs an incomplete contract only to learn later that payments will run higher than he expected.

Even normally prudent people can get involved in this. The deal has been made, and the buyer is itching to drive his new car off the floor. "Take the car now, and let the office catch up on the paper work later," the salesman beams.

Leads to hard feelings

One such instance cited by Mr. O'Brien involved a young woman in Akron who drove off believing she had signed for $60 a month for 30 months, but learned later the payments would run $71. Moreover, she had no remedy. Among the small print buried in the paper she had signed was a statement that she received a copy of the contract before accepting delivery of the car.

Recently in Pittsburgh an irate buyer took the ultimate remedy in a situation of this type. Unable to get an adjustment after finding that his payments were substantially more than he expected, he shot and killed the salesman.

2. A second kind of abuse reported from many cities stems from "no down payment" deals. Here the purchaser and dealer engage in collusion to mislead the finance company, deliberately supplying a fictitious, inflated purchase price to assure a loan sufficiently large to cover the total cost of the car. Or in other instances, the customer is induced to take a side loan with a small loan company, using furniture or other property as security.

3. Pre-payment abuses. Under most contracts customers are entitled to an adjustment if the loan is paid off ahead of schedule. Often, however, the adjustment amounts to very little because a substantial amount of the total finance charge has already been paid by the loan company to the auto dealer and cannot be recovered.

The prepayment problem

At the Senate hearings, witnesses told of a case in Baton Rouge where the $1,730 balance for a car added up to $2,448 after the addition of $229.32 for 36 months of comprehensive insurance and $488.68 for finance charges. When the buyer attempted to pay off this loan at the end of four months he was offered an adjustment of only $20. (Thanks to the intervention of the Better Business Bureau, he finally got $283).

4. "Balloon notes". Here the buyer—generally a very unsophisticated individual—has been blissfully paying off his loan at a modest rate of $50 a month for 12 or 18 months, only to discover that his final payment is to be anywhere from $500 to $1,500. In one such instance, where a buyer had to refinance the car in order to handle that final payment, witnesses reported the new note amounted to almost as much as the original one. While this practice was reported from ten cities, witnesses noted dealers and finance companies generally steer clear of it, partly because the buyer's equity is so small they find themselves with a large number of bad risks.

5. Multiple rate cards. This common practice is reported particularly from Atlanta and Savannah, where dealers have a number of rate cards designed to provide the quotation most likely to "stick" in a particular deal. The dealer's own fee varies according to the rate he is able to sell.

6. Repossession racket. Here a "dummy" is used to buy in a repossessed car at a nominal price. The customer is credited only with the modest sum realized from the sale, and is held liable for the balance of payments on the car.

From a legal standpoint, state and federal laws governing auto financing are full of holes.

Although fifteen states have laws which attempt to eliminate common abuses in car financing, witnesses before the Senate Committee said finance companies that want to profiteer can usually keep several jumps ahead of the lawmakers and the state authorities.

In several states, for example, lawmakers tried to curb the amount that finance companies could get for $50 deductible collision insurance. As a result, one company decided to require $45 deductible, so that it could continue to charge the same fee it had previously required.

At the opening of the Senate subcommittee hearings, Senator Monroney tried to put the problem in perspective. In a 23-month period beginning in January 1955, he pointed out, the volume of automobile loans skyrocketed by almost 40 percent, from $10.4 billion to $14.4 billion. During the decade 1945-55, total assets of four big automobile finance companies (General Motors Acceptance Corp., CIT Finance Corp., Commercial Credit Corp., and Associated Discount Corp) went from $580 million to $5.7 billion.

Effect on auto sales

In terms of net worth, the four big finance companies were earning between 35 and 40 percent each before taxes.

"The growth of these and any other companies is welcomed," Senator Monroney said. "We are certainly not opposed to profits, because that is the American way.

"However, the impact of the cost of financing upon the millions of automobile buyers who must pay the finance charges adds to transportation costs to a significant degree. Complaints have been made repeatedly that some elements of the financing industry have added so much to costs that the mass sales of automobiles has been seriously retarded instead of encouraged."

material you can use

• REPRINTS

Bridge reprints available at 5 cents each or $3.80 per hundred plus postage

FOR MEMBERS

The Threat of Revolving Credit (December, 1956)

Tells how department stores are switching their customers from charge accounts to revolving credit accounts, leading unwary shoppers to pay 12 percent or higher on even small purchases.

Nine Credit Rackets (September, 1956)

Tells how unscrupulous dealers and salesmen use conditional sales contracts, wage assignments, confession judgments, phony receipts and other devices to tie up customers with usurious charges.

Your Legal Rights as a Borrower (January, 1957)

Tells members the various ways in which they may become debtors, the laws that protect them, the legal methods their creditors may employ against them, the traps they should look out for.

A Calendar for Bargain Hunters (January, 1957)

Lists the major clearance sales month by month, tells when various food products are good buys, guides the member who wants to save money by buying the right thing at the right time. Good all year round.

FOR OFFICERS

Collections—a System for Controlling Delinquencies

Gives clear basic instructions for credit unions of all sizes that want to keep loan payments coming in on schedule and save members from slipping into careless, wasteful financial habits.

What Makes a Successful Credit Union? (December, 1956)

Results of a comparative study of ten successful and ten not-so-successful credit unions conducted by a member of the University of Michigan faculty. Compares loan policies, committee activity, age and education of officers, and many other factors.

Protecting Your Credit Union Against Burglary (November, 1956)

Practical steps to take which will guard the assets of your credit union against burglars, thieves and hold-up men. Also, incidentally, against internal pilferage and losses.

Under the Blanket Bond (December, 1956)

Explains how the 100 percent blanket bond no. 576 protects the assets of credit unions; what a bond is; what purposes it serves; how to get the most benefit from the unique credit union bonding program.

Credit Union Bridge BOX 431, MADISON 1, WISCONSIN

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☐ *Check enclosed* ☐ *Bill us.*

Insuring the Borrower

(*Continued from page* 14)

commission per $100 of coverage is adequate. "It is not unreasonable to suggest that commissions greater than this amount are excessive," Kedzie charged in a speech at the opening session of the 5th annual Miami Insurance Conference and Legal Institute Week.

But the National Association of Life Underwriters takes a position completely different from that adopted by the previously mentioned groups. It believes that no commissions of any kind should be paid to lending institutions. A spokesman for the Association says his group is "opposed to the payment of any fees, commissions or emoluments whatsoever, to the lending institution, either directly or indirectly, in connection with the making of a 'small loan.'"

A third view is held by Household Finance Corporation, the largest small loan company in the United States. Household conducted a comprehensive study covering ninety-five of its offices in sixteen states. It included some forty million dollars of insurance in force. The survey showed that Household's annual administrative cost of furnishing this insurance was 4.7 cents per $100 of loan outstanding. Household also cites an informal study by Commercial Credit Corporation in Pennsylvania. Results of this study indicate an average cost of 19 cents per loan. Since the average loan was approximately $400, this gives an administrative cost quite close to that found by Household. From these findings Household concludes that there is no justification for the proposed administrative reimbursement of 40 cents per $100 of initial credit life coverage.

Gigantic conspiracy charged

Most outspoken of the critics of individual credit life insurance is an authority who, according to Dr. Mors, testified as follows before a Congressional committee: "The blunt truth of the matter is, Mr. Chairman, that the (individual) credit life business is basically a gigantic conspiracy between these specialty companies and the lenders who sell their product to defraud the consumer and deprive him of his rights under state laws."

In view of the foregoing opinions and data, what valid reasons remain for asking a borrower to purchase individual credit life coverage when group coverage is available at less than half the cost? In his Coral Gables remarks, Dr. Kedzie points out that "there is still a need for ordinary (individual) consumer credit insurance, where a lender is not large enough to qualify under insurance company underwriting requirements or, in the case where the legality of merchandising this coverage on the group basis is in doubt." But few lenders in the small loan or finance business are too small to qualify under group coverage. Most credit insurance companies will now provide group insurance to lenders with outstanding consumer credit balances of approximately $100,000. Some insurers, including the giant Prudential Insurance Company of America, write group policies for creditors with balances as low as $25,000.

Trend is toward group

Happily, the general trend is away from individual coverage. Dr. Kedzie finds "that several insurers who several years ago had most of their business on the ordinary (individual) basis now write the majority of their consumer credit life insurance business on the group basis."

What determines the cost of credit life insurance? For a number of years, the cost of individual credit life coverage has been determined to a large extent by what economists call reverse competition. This means that competition tends to push the rates up. According to Frank Sullivan, Insurance Commissioner of Kansas, in a letter to other state Insurance Commissioners: "The distinguishing feature (of credit insurance) is that competition does not exist as far as the purchaser of this type of insurance is concerned. Competition exists only in the market where the *buyer* has the free selection of sellers. In the case of credit insurance, the borrower is not given the choice of several sellers. On the contrary, once he chooses his lender he buys insurance, coerced or not, from the company the lender represents or chooses." One of the effects of the standard charge of one dollar per $100 of initial coverage is that many lenders select the insurance carrier which gives them the largest premium refunds or dividends and thus provides them with the greatest amount of extra income.

Quite a different situation prevails in the group credit life field. There, premiums vary substantially after the first year of coverage. Most insurance companies base their premium rates upon the number of claims filed by the insured group. Initial rates are usually the same. They are based upon the New York minimum requirements of 75 cents monthly per $1,000 of outstanding balance. For a $100 loan repayable to twelve equal monthly installments, the initial annual premium under these rates is 49 cents. This applies to lenders with coverage of $250,000 or less. Finance companies with outstanding loans of $500,000 or more pay a minimum initial premium of 60 cents per $1,000 of outstanding balance. The initial annual cost for groups of this size goes down to 39 cents per $100 of installment loans. And groups whose initial coverage falls between $250,000 and $500,000 have an adjusted pro-rata minimum premium.

There is a good reason why so many companies follow the New York minimum schedule. They must, if they want to operate in the Empire State, because the New York Insurance Department requires all insurance companies licensed to do business in New York to adhere to New York's minimum rates in all other states also.

Rates reviewed annually

But the New York minimum rates are binding during the first year of coverage only. After that, competition and experience prevail. All insurance companies basing their premiums upon experience rating, review the claims of the insured group at the end of the first insurance year. They then adjust their rates to meet the group's anticipated claims. Rate-reviewing continues annually.

To see how this works, take the case of General Motors Acceptance Corporation, which in 1956 wrote group credit life coverage in excess of $1 billion. Borrowers were charged directly for this protection, but because the insurance carrier's experience with the GMAC group had been so favorable in earlier years, the consumer's annual premium cost was only 29¼ cents per $100 of

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initial debt. As commercial transactions go, GMAC offered borrowers a pretty good deal.

A recent development in the insurance field is the "Package Plan." F. Roger Downey, administrative assistant to the Superintendent of Insurance, State of New York, writes in his "Report on Insurance Charges in Consumer Credit Transactions," submitted to New York's Superintendent of Insurance on January 24, 1957: "The package plan, sold in connection with financed automobiles, has had a remarkable growth in recent years. The coverage included in this plan are group credit life, limited accident and health, a bail bond, a traveler emergency certificate and, in some instances, towing and labor. These coverages are sold in a single unit or 'package' and the borrower is charged either one dollar per annum for each one hundred dollars being financed, or eighteen dollars a year regardless of the amount being financed. *The purchaser is not informed of the total cost of the package nor is the premium for each type of insurance indicated on the conditional sales contract.* In most instances, the borrower is not even aware that he is purchasing these optional coverages."

Package boosts price

To illustrate this point, Mr. Downey offers as an example a $2,500 balance on a two-year automobile contract. At one finance company the cost for group credit life coverage amounts to $14.50; but the package plan of a major competitor is sold for $50. "The group credit life insurance of both these finance companies is carried by the same insurer and the ultimate cost to the finance companies is substantially the same. *Thus, for the difference charged, viz., $35.50, the purchaser of the package plan receives a credit certificate and additional insurance coverages, the premium for which is $3.68.*"

To what extent do borrowers know that their indebtedness is covered by credit life insurance? The Downey report points out that "in most instances" of package insurance purchases, the borrower is unaware of the nature of package contents. Says the director of research of a large midwestern insurance company: "Knowledge of insurance varies tremendously. An important factor is whether or not borrowers are furnished certificates or statements of insurance." The assistant secretary of an eastern company which specializes in group credit life coverage believes that "most know about it."

The director of group credit insurance of one of the largest companies in the country says, "Many do not know that the breadwinner's loan is covered. But the survivors are very much impressed when claims are paid out. We pay 50 per cent of premiums in claims. Because of the claim payments which we and other insurance companies make, the public is becoming increasingly aware of this type of coverage."

Value still underestimated

There is disagreement among commercial groups as to the value of credit life insurance. Some say that if the loan is repaid during the borrower's lifetime, neither he nor his family gains a lasting benefit. A few look upon it as a lender device to increase profits. Others consider it a waste of money. "I can't believe a lender would force a bereaved widow to make good her husband's debts," is their approach. Even in the insurance business there is no unanimous agreement in regard to credit life benefits. Says the executive vice-president of a billion-dollar life insurance company which does not write credit life coverage: "It would not surprise me if many borrowers now covered would not have bought this protection had they understood that it was included in the loan or purchase charges."

But creditors do *not* cancel deceased borrowers' obligations. To estimate actual practice, John B. Minick, instructor at the University of Nebraska's College of Business Administration, conducted a survey on this question in 1956. He compiled a list of 1,352 names from newspaper death notices in the Kansas City area. The Credit Bureau of Greater Kansas City checked this list and reported 312 inquiries on this group. One hundred and thirteen were from small loan companies, 199 from other consumer lenders. Three hundred and twenty personal calls and 200 mail interviews netted 33 successful contacts, involving 43 consumer debts. Twenty-three of these were with, 20 without life insurance.

Here are Dr. Minick's findings regarding the twenty loans not covered by credit life insurance:

- "In all of these loans, the lender demanded payment from the survivor. No case was found where the balance of the loan was written off by the lending institution.

- "One lender, however, was reported to have cancelled the interest remaining on the loan at the time he was notified of the borrowers' death. The balance of the loan was $75, and this was paid by the widow in monthly installments. The widow had not co-signed the note for this loan from a small loan company in Kansas City, Kansas.

- "Three of the widows interviewed were having considerable trouble in paying the remaining indebtedness.

- "Two loans were paid off in a single payment by widows shortly after the death of the husband. One widow said that the debt was paid by the children of the deceased, and in another case it seemed apparent that the children had contributed to some extent.

- "Most of the widows who were required to pay these consumer debts did not know whether credit life insurance had been offered by the lender. One of them was reasonably certain that insurance had been offered in connection with a loan from a loan and investment company in Kansas City.

- "Another widow interviewed believed that the lender could have provided credit life insurance, but that her husband had been talked out of purchasing it. The lending institution in this case was a Missouri branch (in a Kansas City suburb) of a national small loan company chain which does not sell or otherwise provide credit life insurance in that state.

- "The interviewees who gave information on ten of the twenty loans not covered by credit life insurance said that the borrower knew other lenders could provide this type of insurance. In one case the interviewee believed that credit life insurance had in fact been offered by the lender. In the case of seven other uninsured loans, it was not known whether the borrower had knowledge of credit insurance. Only one widow said that her husband was not aware of this insurance coverage, and another said borrower was 'probably' not aware of its availability."

CUNA Mutual Best Serves All Credit Unions

by PAUL DEATON, Treasurer NCR Credit Union

AS has been said, we're all human; only some of us are more so. Being human we like to know that what we do is both good for us personally and good for others. We like to get ahead, and we like to be recognized as good citizens and, at least in some measure, as Good Samaritans and Public Benefactors.

This basic understanding of human nature is reflected in the modern idea that service to others is the very basis of personal success (happiness) and well-being. This is shared by responsible people in all walks of life—in business, in labor, in government, in the professions, as well as in the church and in charitable enterprises.

Credit unions and credit union organizations are, of course, outstanding exemplifications of this idea. We are dedicated to the rendering of a great service. And we are determined to render this service with the best of business skill, so that our members get the most for their money.

PRACTICAL IDEALISM

Every project of the credit union movement, including the operations of credit union leagues and of CUNA, grew out of this practical idealism. In each instance the objective was and is to provide more and better service through united action.

From time to time the success of such action in specific instances has been challenged. In some instances the success is obviously greater than in others. But I myself can think of no instance where the benefits of our united action have not been well demonstrated. In most instances the demonstration has been truly dramatic.

This is certainly true in the case of CUNA Mutual Insurance Society, and the services it renders the credit union movement. From the beginning, by concentrating on service to credit unions and credit union people, and by united action, CUNA Mutual has applied credit union service principles to the soundest of operating practices and the best of constructive and pioneering action to build up a record of practical achievement that is widely recognized and acclaimed.

COMPETITORS INTERESTED

This recognition and acclaim has naturally enough whetted the interest of competitors.

These competitors recognize that they must try to show that they can provide comparable or better service at lower cost. Otherwise very few, if any, credit unions would be tempted to break away from the united program. For they recognize the need for, and the benefits from, united action. Other things appearing to be equal they would prefer to add their strength and give their support to the insurance company that serves all credit unions without preferential treatment, no matter what their size or location, and no matter who may be their members.

The idea of serving all credit union members alike appeals to all of us. It is a basic credit union principle, supported by the large majority of credit unions. We serve other credit unions, as we serve other credit union members, as we would like to be served if we were in their place.

In making their appeals competitors must also recognize that they could hardly hope to provide the same service to all credit unions at a lower cost. For CUNA Mutual pays no commissions, has astonishingly low operating costs, and its whole activity is bent toward providing policyowners the most for their money—not for profit, not for charity, but for service.

On a casual glance, there would appear to be one basis on which preferential rates might be justified. It might be shown that some credit unions, because of their size, or their location, or their membership were destined to have low claim payment records. But sound insurance considerations give no support for such a thesis. We who, in the face of tempting offers, choose to be loyal to the credit union movement and its united action in the insurance field do, in fact, enjoy the two-fold human satisfaction of knowing that our action is (1) a commendable and appreciated service to the credit union movement, and (2) that it is good dollars-and-cents business. In this regard, the following analysis drawn from a study made by CUNA Mutual's Actuary is very significant:

VIEWPOINT OF ACTUARY

"Loan Protection (credit life) insurance is largely such in name only if it is provided a credit union on the basis of its presumed favorable experience, and with the provision that dividends paid, and the very continuation of the insurance, will depend upon the claim experience of the individual credit union.

"For there is no apparent basis on which any group of credit unions might decide that they were surely and permanently made up of the more fortunate credit union members. Modern commercial and private life provides less

This article is presented as a Credit Union Service Advertisement. This is done because credit union directors share with CUNA Mutual the need this article faces up to; the need to know that the insurance service credit union people provide themselves through CUNA Mutual is the best possible; and if not, in spite of credit union people's united buying power and mutual concern for each other, why not?

Paul Deaton is particularly well qualified to speak. He is treasurer of one of the largest and most successful credit unions, serving employees of the National Cash Register Company. He is also a long-time leader of the credit union movement. For both these reasons the CUNA Mutual Board of Directors appointed him chairman of the recently established Policyowners Advisory Committee. The purpose of this committee is to review CUNA Mutual's operations and report to the policyowners, not how well the company is being run as an insurance company, but how well it is serving credit union people as THE credit union insurance company.

and less basis for any preferential treatment at all in the writing of life insurance. Witness the indiscriminate havoc of modern warfare, modern highway accidents, modern diseases, modern household accidents, modern strains.

"It is notable that insurance mortality tables are figured on the basis of at least 100,000 lives; generally and preferably more. Thus a credit union with 5,000 or 10,000 or even 50,000 members can have no assurance that its experience will be better than the average. Only so long as its experience is better than average will it benefit from the preferential experience rating. It faces constantly risk which would otherwise be assumed by the insurance company, as it should be. In the very likely possibility that its claim experience goes above the average it faces the following unhappy possibilities:

"1. No dividends.

"2. Increase in premiums.

"3. Concellation of contract and loss of protection for the credit union and its members, who were promised the protection.

"4. Imposition of more rigid physical requirements, with further impairment of the credit union's ability to serve.

"Indeed, any effort of the credit union to meet underwriting limitations and pressures in order to obtain low cost insurance and/or higher insurance dividends is not only futile as a means of getting real insurance benefits. It also inevitably limits the amount of service the credit union renders, for it gives the treasurer or loan officer and the credit committee additional cause for pause in approving loan applications (in an effort to make for themselves a favorable insurance experience). It thus actually serves to defeat one of the most important reasons for Loan Protection insurance, as provided by CUNA Mutual—to make it easier for credit unions to approve their members' loan applications.

SPECIAL RESERVES PROVIDED

"Related to these considerations if the fact that in the provision of Loan Protection insurance special reserves should be provided, and are provided by CUNA Mutual, not only on the basis, truly, of life expectancy, but also to provide for credit union business fluctuations; in times of depression, for example.

"In times of heavy unemployment, or even the fear of it, and in times of consumer credit controls, loan balances tend to go down sharply. Correspondingly Loan Protection premium income goes down sharply. On the other hand Loan Protection claims tend to follow by some weeks or months the date of death or disability. As a result in a period of falling business current claim payments may easily exceed current premium income.

"This has already happened in CUNA Mutual history. Thanks to its careful and foresighted reserve policy CUNA Mutual has been able to pay all claims promptly through depression as well as prosperity without any impairment of its outstanding record for stability and dependability."

OTHER CONSIDERATIONS

Other practical considerations which lead large as well as small credit unions to be grateful to as well as loyal to CUNA Mutual are these:

1. The new credit union, no matter what its potential size, is able to get CUNA Mutual protection immediately. And it has no fear of losing this protection even if its first loans should happen to produce an unfavorable claim experience, as they well might. Experience rated contracts can offer no such benefits.

2. The credit union that obtains favorable rates because its members appear to be on the average young—for example, the credit union in a young industry—obviously has only a temporary advantage, if any, which as we have seen is not a sure one.

3. Very few credit unions attracted by the "retention" type of contract receive as much as 10 per cent return. The amount they do deceive is apparently a part of the cost of providing the insurance borne by the insurance company. The total cost of providing CUNA Mutual insurance is now just about 10 per cent, including taxes. It is obvious that credit unions are receiving a tremendous bargain in the amount of true insurance they are receiving from CUNA Mutual for their premium dollar.

This is also shown by the fact, indicated above, that CUNA Mutual now returns over 90 per cent of the premium dollar to the policyowner in claims, dividends, or reserves. Operating costs, exclusive of taxes, are, in fact, only 7.1 per cent of income. Particularly notable are the high claim benefits paid by CUNA Mutual. For example, Loan Protection claims paid total 71 per cent of premiums received.

ALL BOUND TO GAIN

Important though the above considerations may be, however, they would hardly be needed by many CUNA Mutual policyowners; even the largest and most favorably placed for the buying of insurance. For we recognize the opportunity CUNA Mutual offers us to harness the great buying power of the whole credit union movement to obtain the best insurance program for all of us, individually and collectively. Few would belittle such an opportunity. Many would prize it. By making the most of it—both by full democratic action and by sound business management—all of us are bound to gain, as we gain by all our credit union action. It would be but our own fault if we did not.

If some of the smaller and less favored among us depend more obviously upon CUNA Mutual for the low-cost, outstanding benefits it provides, that is all the more reason for all of us to stay united. Not only because we are dedicated to credit union service principles, but also because the crucial need now felt by some underscores the potential need we all have for the strongest possible bulwark against those who might exploit us. The very existence and growing strength of CUNA Mutual is our insurance against such exploitations.

We each have the responsibility and the opportunity to help see that CUNA Mutual continues to exist and grow as the credit union insurance company, in continuing and growing service to credit union people.

CUNA Mutual Insurance Society
Madison 1, Wisconsin
Hamilton, Ontario

The CUNA Program

(Continued from page 9)

take place in Philadelphia in June and in Kansas City in September. Another will be held in December. Over a two-year period, all regions of the United States and Canada will be covered.

The department's external job is to reach the general public, and for this use is made of school programs, news releases, feature material written to order, films, radio and television scripts. Requests for special information, sometimes involving quick research assignments, are handled for publications and for students engaged in special projects. Credit Union Day, the third Thursday in October, has become a major publicity event at the chapter level, and is backed up with voluminous publicity and advertising material.

For use inside the credit union movement, public relations prepares speech material, features for league and credit union bulletins, tailored displays and a photo and mat service. Newspaper and radio-TV kits are now being considered, and a new film is in prospect, following up "Till Debt Do Us Part." Films have to be financed on a self-supporting basis, hence the department struggles a little with its budget when giving birth to a new one.

The present problems of the public relations department are mainly a result of the suddenly heightened public interest in all aspects of consumer credit. With increased competition between commercial savings and credit agencies, the credit union movement is being watched much more closely. Unfriendly interests are more active. The best answer to this, as the public relations department sees it, is to get the credit union movement to tell its story—not just from Madison but from every nook and corner of the United States and Canada. Public relations will work closely with the leagues in building this kind of grass roots program.

At the present time, the public relations department also serves CUNA, CUNA Mutual and CUNA Supply, and is supported by appropriations from all three organizations. The "POP Fund," a method by which contributions were formerly solicited from individuals and credit unions, has been discontinued.

Insurance Services

CUNA Insurance Services was established last fall by a merger of the CUNA Auto Insurance Program and the CUNA Bonding Program. Stanley Harris is director, and Arvin Hepler manages the bonding operation. The program at present offers five insurance services in the casualty field:

- auto insurance for credit union members
- chattel lien non-filing insurance
- group accident coverage for volunteer officers and committeemen
- travel accident for full-time paid credit union employees and CUNA national directors
- fidelity bonds of various types

The department is also studying other insurance services for credit unions, especially workmen's compensation, liability, and owners-landlords-and-tenants. The goal of the department is to be able to give leagues and credit unions sound advice on the insurance needs of credit unions of all types and sizes. Since these needs vary considerably depending on the conditions under which credit unions operate—whether they have employees, whether they own or rent, and so on—substantial research is indicated.

At the present time, all coverages furnished are underwritten by Employers Mutuals of Wausau, Wisconsin. CUNA Insurance Services is self-supporting. Its agreement with Employers Mutuals provides that CUNA handles promotion and administration, processes applications, billing, renewals and all the mechanics of the program. Employers Mutuals handles all claims. CUNA is reimbursed for actual costs; rates, dividends and other details are regularly reviewed by subcommittees of the CUNA Executive Committee. An arbitration procedure is provided for credit unions or credit union members that wish to have claims or other problems reviewed.

About $3 million of the premium income of the department now comes from the auto program, and $2 million from bonding.

The bonding program is the oldest part of the department, since credit unions have been required by law to bond their officers and employees from the beginning of the credit union movement. Credit unions rarely have experienced severe losses except through defalcations, so the bonding program is the basis of a sound credit union. Through the years, CUNA has developed and refined a series of credit union bonds. Today, the 576 blanket bond that covers 100 percent of the assets of credit unions up to one million dollars is generally approved and recommended. Since it was introduced, in June 1954, it has been adopted by nearly 15,000 credit unions. It provides protection not only against dishonesty of officers or employees, but also against theft, forgery, mysterious disappearance and damage. Faithful performance coverage can be added by rider.

The department is feeling cheerful about the current bonding experience. In the six years since the program with Employers Mutuals was worked out, $2,396,719 has been paid in claims, of which about $250,000 has been recovered in salvage. During a short period in 1954-55, when claims were heavy, there was some concern about whether the rates could be held down. But experience quickly picked up, and attention is now being turned toward improved coverage.

The auto insurance program was set up in order to answer the need to provide members with auto loans and insurance in a package. It was designed to furnish good, reasonable coverage for the members, advising them to get proper liability protection as well as comprehensive and collision insurance; to provide a quick and equitable claim service, backed by arbitration, and to build in special features for the protection of credit unions. Today, the auto insurance program protects credit unions by two features that are available nowhere else: they are guaranteed that the comprehensive and collision coverage will not be canceled as long as the credit union loan is secured by the car, and checks for damage done to the car are addressed to the credit union as well as the insuree under an automatic loss payable clause.

The sale of CUNA auto insurance has to be handled by an agent, usually the credit union treasurer but sometimes another officer or member. Remuneration is paid to the agent.

The chattel lien non-filing bond

and the group accident policy to cover volunteer officers are both pioneer insurance developments. The chattel lien insurance is the only such insurance available on a group basis. The accident policy is unique in the group it covers.

World Extension

The world extension department was set up in 1954 to provide credit union information and advice to people in other countries, particularly the under-developed countries. The department is headed by Olaf Spetland. At present, most of the department's efforts are directed toward Central and South America, and a full-time representative, Jose Arroyo Riestra, is stationed in Lima, Peru. There are 15 credit unions in Peru at present, and 83 in nearby Chile.

The work itself is not new, as Spetland points out. Requests for assistance in organizing credit unions have been reaching Filene House from many countries ever since 1946. Without an official department to handle them, these requests until 1954 were parceled out informally among the existing departments. Today, there are only six countries from which the department has never received a request for information.

The department has three methods of working:

• Mail. Most inquiries have to be handled at long distance, through letters and prepared literature. The department has credit union materials prepared in Spanish, French, German, Dutch, Korean, Norwegian, Estonian and Ukranian. Each reply to a foreign country is based on a study of the local laws, since credit unions may be chartered under a variety of statutes. A number of credit unions have been organized by this correspondence procedure.

• Personal visits. Visitors from many countries spend time at Filene House ranging from several days to several weeks. Many of them come by arrangement with the International Cooperation Administration of the Department of State, the United Nations, or the Food and Agriculture Organization. A majority of the visitors are sent by agencies of their own governments, and their usual interest is agricultural credit. They are shown how credit unions operate in the United States, they sometimes work in a credit union, and often they are given some training in organizing techniques.

• Special projects. The appointment of Arroyo as the department's representative in South America was prepared by an on-the-spot survey of needs, laws and opportunities. A current project is departmental support for the establishment of a Caribbean credit union federation.

If you run your eye over a map of the world, you will have a hard time finding an area where there is no credit union interest today. Disregarding credit cooperatives financed by government loans, which Spetland does not count as part of the credit union family, there is activity nearly everywhere. The Caribbean is a hotbed of activity, with 78 credit unions in Jamaica, 252 in Trinidad, 13 in Dominica and smaller numbers in many of the other islands.

There are 290 credit unions in the Philippines and 85 in the Australian province of New South Wales. Three have been set up in New Zealand by correspondence, and seven have been reported among the Maoris. The Fiji Islands now have 187 credit unions. Half of the trainees that come to Filene House at the expense of their governments are Indonesians. There are 280 credit unions in Malaya. There are three or four in Nigeria, and 3 in the new African republic of Ghana.

Inquiries are being received from many remote and exotic localities. American oil companies in Arabia and managers of industry in Britain are heard from together with government employees, Christian missionaries and unidentified individuals in Southern Rhodesia, the Ivory Coast, Liberia, Djibouti, Mozambique, the Canaries, the Cape Verdes, the Azores. Every island group in the Pacific has been heard from: New Caledonia, Truk, Samoa, Tahiti and all the rest.

Naturally, a credit union organized to serve the needs of the people in these countries may differ dramatically from a credit union organized among employees of a potato chip factory in Missouri. There are two operating principles that distinguish a credit union from other lending and charitable organizations: it is run by its members, and it makes loans to the members out of their own savings. In other aspects, considerable flexibility is possible.

Advertising and Promotion

The CUNA Advertising and Promotion Service was launched in 1954 to provide advertising materials for credit unions, leagues and the Credit Union National Association and its affiliates. It is under the management of Philip M. Davies, with Ed Kirley as his assistant.

The department produces both made-to-order advertising materials and syndicated materials that are produced and distributed by CUNA Supply Cooperative.

The need for advertising materials grows as credit unions grow. Close personal contact between the directors of the credit union and the members is rare in big credit unions, and rarer still when most transactions are handled through payroll deduction. The advertising department's job is to provide those simple reminder materials that keep members conscious of their credit union's services. This is not a substitute for personal contact or education, as Davies sees it, but a supplement.

The Poster-A-Month series, produced and distributed by CUNA Supply, is the most popular material the department now prepares; it is being used by 2,700 credit unions. A series of 12-inch newspaper ads, distributed by the leagues in mat form, has been running in thirty or forty daily papers in Wisconsin, Illinois, Ontario, Manitoba, Connecticut and Nebraska. Last summer, the department began producing a series of two new leaflets a month advertising various aspects of credit union service, for membership distribution.

Letterheads, displays, annual reports and a credit union advertising handbook are among the materials the department has prepared. Writing is handled within the department; layouts and art are purchased from top-ranking commercial studios. The department carries most jobs through from planning to printing, with the printing being routed in most cases to CUNA Supply. But it is willing to provide any phase or element of an advertising job, for local completion: rough copy, rough layouts, finished art for any type of reproduction process.

The department is self-supporting, charging for each job on the basis of creative time required. It offers free consultation and free estimates

(*Continued on page* 30)

in the NEWS

Federal amendments improved

WHEN the Financial Institutions Act passed the Senate on March 22, features objectionable to the credit union movement had been eliminated.

In addition, the bill contained these provisions helpful to federal-chartered credit unions:

- Dividends may be declared semi-annually.
- The dividend rate may be set by the board of directors.
- Dividends may accrue on savings placed in share accounts up to the fifth of the month.
- Space in federal buildings may be made available to credit unions whose membership includes 95 percent or more of federal employees.
- The limit on unsecured loans is raised to $500.

Note that these amendments to the Federal Credit Union Act apply only to federal-chartered credit unions; also, the bill still has to pass the House of Representatives and be signed by the President before it becomes law.

The objectionable features that were eliminated from the bill were two. One authorized the director of the Bureau of Federal Credit Unions to lower the limit on loans from the present "10 percent of unimpaired assets" to any other figure at his discretion. The second would have required credit unions with assets over $100,000 to have an annual audit by an outside firm; the federal bureau would have been required to audit rather than examine credit unions under the $100,000-assets line.

To defeat these provisions, the Credit Union National Association asked leagues and federal credit unions to protest to their Senators. Personal visits by the CUNA managing director and staff to all offices in the Senate Office Building showed that the campaign of protests was highly successful. When the objectionable features had been removed from the bill, it was passed by the Senate with only one dissenting vote.

CUNA Mutual gains half billion

INSURANCE coverage written by CUNA Mutual Insurance Society increased more than half a billion dollars last year, the society announced in its annual report released to policyowners last month.

There are 16,501 credit unions now insuring loans and share accounts with CUNA Mutual, the report shows, as compared with 15,096 a year ago. Individual policyowners now number 20,892, as compared with 18,883 in 1955. Total insurance in force includes $2,870,978,838 of group coverage and $47,718,775 of individual coverage.

Claims paid under the group coverages—loan protection and life savings insurance—totalled $13,393,191 during fiscal 1956, an increase of approximately $3 million for the year. The company has now paid over $59 million in claims since it was established in 1935. Net assets are now $18,510,644, up $3½ million from 1955.

Competition is increasingly aggressive, the report notes, but mainly on the basis of experience-type loan protection contracts which "cannot stand long during a period of decreasing loan balances in an individual credit union and therefore cannot be considered permanent insurance." Partly because of competition and "partly as a natural result of our growing experience and growing resources, we have during 1956 established two new departments: Field Services and Policyowner Relations." The other major development for 1956, the report says, was a new "family-security" policy of individual insurance.

States attack credit rackets

STATES are growing more alert to the racket element in consumer credit.

Loan sharks, pro-raters and even department stores have felt the rough hand of state control since the first of the year.

From Wyoming, Mississippi, New York, Massachusetts, comes word of official action to protect borrowers.

Wyoming: The state of Wyoming has just become the seventh to outlaw pro-raters. The business of charging people for helping them budget their income and their debt repayments is no longer legal in this state.

Massachusetts: The Supreme Court of Massachusetts has upheld a law similar to the Wyoming law which was attacked by the debt-pooling agencies as unconstitutional. They claimed they were being deprived of the right to engage in a legitimate business. The Massachusetts and Boston Bar associations argued that the pro-raters were really engaged in the practice of law, and this argument was accepted by the Court.

Mississippi: Last year the Mississippi Economic Council (Chamber of Commerce) issued a pamphlet called "A Factual Study of Usury in Mississippi." The legislature got interested, and appointed an interim committee to draft new small loan legislation between sessions. The committee is headed by a Natchez attorney named Walter Hester, and it is expected to introduce a bill in the 1958 session.

Small loans in Mississippi are completely uncontrolled, thanks to the lenders' device of charging "broker's fees" instead of interest. Lenders go through the pretext of arranging loans between the borrower and a source in another state, and the courts have accepted their claim that they charge only brokerage fees, which are not limited by any law.

The Mississippi Economic Council's report cites many

horrible examples of rates running as high as 1200 percent.

New York: The New York state legislature, which only began regulating charges in auto financing January 1, decided in March to go the whole hog. A bill was passed by both houses to regulate all installment sales, including revolving credit plans used by department stores. Both political parties joined in pushing the bill through to passage.

Installment sellers will be required to itemize the price of merchandise and installment charges separately on all sales. The charge on any transaction up to $500 is limited to $10 per $100 per year. Over $500, the limit is $8 per $100. Where formerly auto finance limits applied only on sales up to $3,000, now all charges are controlled.

Repossessions under add-on contracts are also restricted. The new bill provides that where the customer has paid 20 percent of the cost of a new purchase, items purchased earlier can no longer be repossessed.

A temporary dollar-a-month ceiling has been placed on revolving credit charges, pending the results of further study.

Footnote from Alabama: A recent Alabama Supreme Court decision upheld a city tax of $2,500 on small loan companies. Lenders claimed the tax was confiscatory. The court said it wasn't, after discovering that with working capital of only $6,000 or $7,000, lenders were showing net profits around 125 percent.

The CUNA Program

(Continued from page 26)

to credit unions that want program recommendations.

Special Projects

The department of special projects is new this year, established by the CUNA Executive Committee in consultation with the CUNA Supply Board of Directors in February. It is headed by Kent W. Francis.

This department was set up to meet a need that was defined during conferences last fall on the economic function of CUNA Supply.

Something, the conferees agreed, should be done about the fact that many credit unions grow so slowly; fail to sign up their full potential membership; peter out with an average share account of $300; fail to serve more than 30 or 40 percent of their members' credit needs.

The efforts of the education and advertising departments were recognized, but it was felt that some special program had to be created to communicate the enthusiasm of the active credit unions to the less active credit unions; to spread the vision of growth and service more widely. The production of suitable materials is well within reach, as the conferees saw it, but the problem of getting them used has still to be solved.

Hence in February the CUNA Supply board voted to pay CUNA $50,000 for a program that would stimulate credit union growth and incidentally build distribution of CUNA Supply's advertising materials. The CUNA Executive Committee set up the special projects department, and named Francis as director.

This makes Francis responsible for planning a distribution program, and incidentally for recommendations on materials, prices and methods. The tough part of the program, of course, is stirring up interest and understanding. Speaking frequently at league meetings, he finds general enthusiasm for the project; he is planning a system of awards that will dramatize the goal of growth; and he will present to the appropriate committee in May the first prospectus for his campaign, which he calls Operation Impact.

Legal and Legislative

The Legal and Legislative Department is under the direction of David Weinberg, an attorney and accountant. This department is another recently established arm of CUNA, and Weinberg was appointed its head in October. The program of the department covers a number of activities:

• To get favorable legislation for federal credit unions. Shared between the department and the Washington office, this assignment has been a major concern in 1957. The Senate Banking Committee produced a bill in February amending the federal credit union act in several objectionable ways. However, by the time the Senate passed the bill, its objectionable features had been amended out.

• To assist leagues, where requested, to set up legislative programs in their states and provinces.

• To act as a clearinghouse for information on the credit union laws of all states and provinces. This service is not a substitute for local legal counsel, but will help leagues and local counsel get a broad picture quickly.

• To help establish CUNA's legislative policy; draft legislation and by-law changes; provide current information on legislation of interest, such as tax laws and unemployment compensation.

• Serve as house counsel for CUNA and CUNA Supply, consulting with retained counsel on individual cases.

• Work with supervisory agencies, particularly the Bureau of Federal Credit Unions, on all problems related to the chartering and supervision of credit unions. This is done in cooperation with the CUNA liaison committee, a subcommittee of the Executive Committee.

Washington Office

The Washington office, under the direction of Hubert Rhodes, has been the main point of contact between CUNA and the federal government for nearly twenty years. Rhodes has told the credit union story to hundreds of members of Congress and, in earlier years, he served as a local field man for the national association. The District of Columbia is a highly organized territory, and the CUNA Washington office has done much to establish credit unions in the District, to cultivate friends in Congress and the administrative agencies, and to maintain a good working relationship between the Federal Bureau and CUNA.

The Credit Union Bridge

The Credit Union Bridge was first published as a kind of news bulletin by the old Credit Union National Extension Bureau. During the thirties, there was a brief attempt to make it a membership publication, which failed. Today the editorial director of The Bridge is Richard Y. Giles, with two assistant editors, E. R. Brann and John Lovelace. The present paid circulation of The Bridge is approaching 43,000; it is gaining about 800 a month.

Last fall, when a group of league representatives discussed the CUNA publications program, their recommendations called for three different publications:

• A magazine for leadership, for the dedicated people who make credit union work an important part of their lives;

• A magazine for the thousands of credit union officers who serve briefly as directors or committee members, whose principal need is for basic introductory material;

• A magazine for members.

The Credit Union Bridge fits into the leadership class, the conference decided; the other two magazines remain to be planned and produced.

The present program of The Bridge is to provide full on-the-spot coverage of credit union operations, social conditions that underline the need for credit unions, and related political and economic trends.

The heart of the program

The CUNA program, 1957 model, grows out of consultations with the leagues, and further consultations may lead to further revisions.

As things now stand, they can be summed up this way: CUNA and the leagues are jointly working out an answer to the need for better, more highly developed technical services. During the time that this job was neglected, the demand for technical assistance has been increasingly supplied by organizations from outside the credit union movement, posing a serious threat to the cohesion and philosophy of the movement. Only CUNA and the leagues, working together, can supply the needed technical advances within the traditional credit union spirit.

COMING EVENTS

May 3-7—**NAMD** Educational Sessions, University of Omaha, Omaha, Nebraska.

May 5-12—**CUNA and affiliates** annual meetings, Fontanelle Hotel, Omaha, Nebraska.

May 6—**Subcommittee** Meetings; 8:00 p.m., **NAMD-CUNA** staff.

May 7—9:00 a.m. **NAMD** business meeting; **Subcommittee** meetings.

May 8—10:00 a.m. **Joint Meeting,** CUNA Executive Committee, CUNA Mutual Board, CUNA Supply Board; 2:00 p.m. **CUNA Supply Board** meeting; evening: **Subcommittee** meetings.

May 9—9:00 a.m. **CUNA Executive Committee;** 3:00 p.m. **CUNA Supply Membership** meeting; T.F. **New CUNA Supply Board;** evening: **Nebraska** Night.

May 10—9:00 a.m. **Canadian District** meeting; 10:00 a.m. **CUNA Mutual Board;** 2:00 p.m. **CUNA Mutual Educational** session; 8:00 p.m. **District** meetings.

May 11—9:00 a.m. **National Board** meeting.

May 12—8:00 a.m. **Church Service;** 9:00 a.m. **National Board** meeting; T.F. **New CUNA Executive Committee;** T.F. **Joint Meeting.**

May 24-26—**Iowa** Credit Union League annual meeting, Hotel Martin, Sioux City, Iowa.

May 31 - June 1—**Washington** Credit Union League annual meeting, Winthrop Hotel, Tacoma, Washington.

June 8—**Quebec** Credit Union League annual meeting.

June 13-15—**British Columbia** Credit Union League annual meeting, Brock Hall, University of British Columbia, Vancouver, British Columbia.

June 13-16—**New York** State Credit Union League annual meeting, Laurels Country Club, Sackett Lake, Monticello, New York.

June 15-16 — **Montana** Credit Union League annual meeting, Finlen Hotel, Butte, Montana.

September 27-28 — **Wisconsin** Credit Union League annual meeting, Schroeder Hotel, Milwaukee, Wisconsin.

October 4-5 — **Indiana** Credit Union League annual meeting, Sheraton Hotel, French Lick, Indiana.

October 5—**Maine** Credit Union League annual meeting, Eastland Hotel, Portland, Maine.

October 17-19 — **Florida** Credit Union League annual meeting, San Juan Hotel, Orlando, Florida.

November 1-3—**California** Credit Union League annual meeting, Long Beach, California.

November 21-24—**Missouri** Credit Union League annual meeting, Hotel President, Kansas City, Missouri.

MAKE YOUR WORK EASIER . . .
GET THE JOB DONE FASTER . . .
WITH THESE **posting trays**

PORTA-MATIC POSTING TRAY

Bookkeepers like this portable posting tray because it's so easy to use. It opens and closes with a flip of the handle, stores overnight in a vault or most letter files—or under its own locked hood (extra). Ledger cards are always ready for instant reference. Porta-Matic Trays come in lengths and widths for every posting operation. The trays have a drop side, so posting information and ledger cards can be offset as desired. Rubber runners protect your desk top. Metallic gray finish.

COMPLETE POSTING UNITS

Your trays combine with accessories to make complete posting units. Tray hood with lock (as shown) converts each tray into a storage cabinet. Rollaway stands hold one or two trays, and come in a choice of three styles: open style (shown), lock-cabinet style, and file-drawer style.

NORFIELD POSTING TRAY

This rugged lightweight posting tray is a tested performer in credit union offices. It provides quick adjustments for both width and capacity—plus drop-rail provision for offsetting cards on both sides. Easily portable, with cupped carrying handles on the end plates which automatically close the tray to prevent spilling of the contents. Gray crinkle enamel finish, chrome-plated handle and fittings.

COMPLETE POSTING UNITS

Tray stands are available (as shown) to hold one or two trays. Stand is finished gray and chrome to match tray, with choice of studs or casters.

USE POSTING TRAYS WITH THESE LEDGER CARDS . . .

BASIC FORMS

103-G Share and Loan, used and filed with 107-G Statement
103-A Share and Loan (paper)
103-AX Share and Loan (index)
103-B Shares (paper)
103-BX Shares (index)
103-C Loans (paper)
103-CX Loans (index)
30 Share and Deposit
31 Loans
32 Share, Deposit, and Loan

CUNAPOST FORMS

1530 Share and Loan
1531 Quarterly Statement

MACHINE FORMS

Ledger cards and statement forms used with Underwood, Burroughs, and NCR bookkeeping machines.

WRITE FOR DETAILED LITERATURE AND PRICES

CUNA SUPPLY COOPERATIVE
BOX 333, MADISON, WIS. • BOX 65, HAMILTON ONTARIO

MRS. REED WROTE A LETTER TO MR. DUNKIN

Mrs. Georgie May Reed
1010 S. Main Street
DeSoto, Missouri

Dear Mr. Dunkin:

I wonder if others know of the wonderful security they have through their credit union and the CUNA Mutual Insurance Society?

I can never say enough to afford sufficient praise for the great services that were given me at the time of the loss of my husband ... His loan was paid in full by Loan Protection Insurance, and his savings were practically doubled as a result of the credit union's Life Savings policy with CUNA Mutual.

I truly appreciate the wonderful consideration that I have received.

Sincerely yours,
Mrs. Georgie May Reed

W. A. Dunkin, Treasurer
Kemba St. Louis Credit Union
St. Louis, Missouri

this is why she wrote it . . .

"Mrs. Reed's letter expresses grateful thanks to Kemba and CUNA Mutual," says W. A. Dunkin. "It's one of the things that makes my job of Treasurer more rewarding. We receive many such letters as, I am sure, do officers of CUNA-affiliated credit unions throughout the Western Hemisphere. The reason is obvious . . . CUNA Mutual renders a wonderful service to millions through its Loan Protection Insurance program."

Loan Protection Insurance safeguards the borrowing member, his co-signers, and family. In case of death or permanent disability, his loan, up to $10,000* is paid in full!

Life Savings Insurance matches the insurable member's savings — dollar-for-dollar — to a maximum of $2,000, if deposited with a policy-owning credit union before age 55. (And supplements generously all deposits made after that age!)

"Is it any wonder," asks Mr. Dunkin, "that in 1956 alone more than four million credit union members took advantage of CUNA Mutual insurance?" You can, too — beginning today!

*except where state law sets a lower maximum coverage.

SERVING CREDIT UNIONS IN THE WESTERN HEMISPHERE

CUNA MUTUAL *Insurance Society*

MADISON, WISCONSIN • HAMILTON, ONTARIO